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ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XXXI

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T. S. HUBBARD
OFFICIAL REPORTER

Mr. Vaughan



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ROYAL COMMISSION ON CO-OPERATIVES

Ottawa, Thursday, May 3, 1945

VOLUME XXXI

(Pages 7589 - 7757)

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ROYAL COMMISSION ON COOPERATIVES

The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, on Thursday, May 3, 1945.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON	}	Commissioners
G. A. ELLIOTT		
J. M. NADEAU		
J. J. VAUGHAN		

Eugene T. Parker, K.C. Counsel

Major H. D. Woods	}	Associate Registrars
J. A. Chapdelaine		

Colonel G. W. Ross Executive
Secretary

APPEARANCES:

G. H. Steer, K.C.	}	United Grain Growers Limited
H. L. Griffin		" " " "
J. E. Brownlee		" " " "
Cecil Lamont	}	North-West Line Elevators
W. P. Fillmore		" " " "
W. B. Francis)	Group of Cooperative Associations

Ottawa,
Thursday,
May 3, 1945.

The Commission met at 10 a.m., Mr. Justice McDougall presiding.

MR. PARKER: There are only two matters left to be dealt with, Mr. Chairman. One is a brief filed by the International Co-operative Association, which has been spoken to a number of times, and my instructions now are that no one wishes to speak to it at length. It is desired to have the necessary documents filed so that they will be on record and let the matter go at that.

THE CHAIRMAN: Have you anything to say, Mr. Francis?

MR. FRANCIS: This submission was made on behalf of three associations, the National Co-operatives Incorporated, the National Farm Machinery Co-operatives Incorporated and the International Lumbermen's Association Limited. In the evidence before the Commission reference has been made to the membership of two of these organizations. In the evidence of Mr. MacKay in Saskatchewan reference was made to National Co-operatives Incorporated and National Farm Machinery, and also in the evidence of Mr. Scott in Toronto. In the submission made by the Canadian Lumbermen's Association reference was made to the International Lumbermen's Association Limited and it was partly because of these references that it was deemed advisable by this group to forward a memorandum some time ago. The submission was filed some time ago and is in two parts. First there was a memorandum giving the method of organization and the tax privileges that are given in the United States, and the other part was a supplement dealing with American decisions. The relevant American decisions were gathered together and forwarded to you and that may be of some

value to you. However, with regard to the calling of witnesses, we felt that perhaps there are sufficient problems on this side of the boundary to keep the Commission busy without asking them to undertake the work of studying the details of international matters. We therefore propose to let the matter rest as it is at the moment. We hope that the memorandum on the law will be of some assistance to the Commission. With regard to the other statement, it simply rounds out the picture and gives certain information, affording a background for the evidence that is already before the Commission.

THE CHAIRMAN: The brief, then, is submitted --

MR. FRANCIS: But not read.

MR. PARKER: That being disposed of, Mr. Chairman, we arrive at the concluding chapter of this story. Mr. Good, the president of the National Co-operative Union, is here. You will recall that at the Ottawa session held in February Mr. Good presented a brief of some length and Mr. Grosch asked him some questions then primarily for the reason, as he stated, that he would not be able to be here at this time. It was understood then that Mr. Good would stand aside and that any examination on the main brief would take place on this occasion. At the same time, he has filed a supplementary brief dealing with certain aspects of the movement. I do not know whether it is the desire of the Commission to have that supplementary brief read. My own view of the matter is that, unless some good reason is shown why it should be read now, it be taken as read. It does not deal to any great extent with facts but rather with arguments and theories. In addition to that, it is understood that Mr. Good will at this stage be prepared to submit certain definite, concrete recommendations. My suggestion

is that we proceed by having Mr. Good take the stand and dispose of the supplementary brief, in such manner as may be determined, and then submit his recommendations, and thereafter he can make himself available for questioning on the main brief.

THE CHAIRMAN: Would it not be better, Mr. Parker, to dispose of the other brief first and conclude Mr. Good's examination on that. Then we could proceed with the supplementary brief and the recommendations.

MR. PARKER: That suits me, Mr. Chairman.

THE CHAIRMAN: It seems to me that if Mr. Good completed his submission made at the earlier hearing, and if the examination of him, which was not completed at the time we then adjourned, were proceeded with now, taking his supplementary brief and the recommendations afterwards, that would be the best order of business. I should think we ought to dispose first, completely, of the main brief.

MR. FRANCIS: I think there would be less confusion if we did that, Mr. Chairman.

THE CHAIRMAN: It can be noted by the reporter, then, that this is a continuation of the examination which was suspended in February. That would be the most satisfactory method of procedure.

MR. PARKER: Very good, Mr. Chairman. Perhaps I should supplement what I have already stated with this remark. In the interval Mr. Good has filed with the Registrar certain exhibits which he informs me this morning are referred to in his original brief. I assume that is so. Whether they are here or not, I do not know; this is the first intimation I have had that they were filed. Perhaps Mr. Good has copies of them, if there are such exhibits referred to in his brief,

and they could be incorporated in the submission. I do not know whether the Commission has seen these exhibits.

MR. GOOD: May I make a statement regarding that, Mr. Chairman? The exhibits were referred to by me when I presented the introductory brief. They have been filed since, ten copies of each, and all I wanted to do this morning, if you would permit me, was to make a brief reference to them. I will not use any of the material in them at all. It is not necessary to refer to them in the further examination of the introductory brief unless some of the Commissioners desire to ask questions about them. I regret that the members of the Commission have not seen these exhibits, but they are available for study.

THE CHAIRMAN: I understand, Mr. Parker, that the manner in which you propose to proceed now is that Mr. Good will go on to complete the other brief, and we will take up the supplementary brief after he has disposed of that.

MR. PARKER: These exhibits to which I refer relate to the introductory brief. Mr. Good says they will not be referred to now.

MR. FILLMORE: Mr. Chairman, as we have not seen the supplementary brief I would like to have a copy of it in the meantime and also a list of the exhibits so that we may know what they are.

THE CHAIRMAN: I have no doubt Mr. Macdonald will be able to supply you with copies.

MR. A. B. MACDONALD: They were distributed fairly widely this morning, Mr. Chairman.

THE CHAIRMAN: You can tell Mr. Fillmore what they are.

MR. FRANCIS: We will supply them to Mr. Fillmore.

The Co-operative Union of CanadaW. C. GOOD,President, The Co-operative
Union of Canada, examination
continued from February,
Ottawa hearing.

MR. PARKER: This, Mr. Chairman, is a continuation of the hearing on the original brief presented by Mr. Good some weeks ago and I now propose to ask Mr. Good some questions on that brief.

THE WITNESS: Mr. Chairman, may I refer briefly to the exhibits, just by way of explanation, before this examination is proceeded with. The first exhibit consists of certain figures compiled from the records of the British movement referring to employment in the cooperative movement. This has been filed.

BY MR. PARKER:

Q. Prepared by whom? A. By Mr. George Keen, secretary of our national union, from the records.

Q. Is he here to explain how they were prepared?
A. No.

Q. What authority have you for presenting this paper, which may have been picked out of the garbage can, so far as the Commission is concerned. I do not say that it was, but how do we know that it has any authority. A. Mr. Keen is not here. If he were he would refer to the documents, but this has been compiled from official documents.

Q. But he is not here? A. No, and personally I cannot certify to them.

Q. That is No. 1. What is the next? A. The next is some figures compiled by Mr. Murray Lincoln, president of the Co-operative League of the United States, on the effect

of cooperative competition on the prices of certain articles which farmers buy in the United States.

Q. Did he prepare it at your request? A. This has been more or less public property for two years.

Q. Where did you get it? A. From Mr. Murray Lincoln. We have the original of his letter and as far as I can see he is responsible for it. He is not here, however, but he occupies a responsible position.

THE CHAIRMAN: It is a misnomer to call them exhibits. They are authorities, just as if you filed a statement from a case or a well known book. They are not exhibits, however.

THE WITNESS: Pardon me, my Lord, for my ignorance. I was not familiar with the terminology.

BY MR. PARKER:

Q. As long as we understand that, so that we shall know just where we stand. We just want to know what their value is.

THE CHAIRMAN: They are not exhibits but authorities.

THE WITNESS: The next consists of some figures and comments from Mr. R. A. Palmer, secretary of the British Co-operative Union, on the effect of cooperative competition on the prices of certain commodities in various countries in Europe. He is acting secretary of the International Co-operative Alliance. We have his signed letter. However, that is where it comes from.

BY MR. PARKER:

Q. How does it happen to be here? Did you write to him? A. Yes, we did. We asked him if he could furnish us with that information.

Q. And this is the answer? A. Yes. As far as Mr. Lincoln is concerned, we also wrote to him. We knew

of these figures but we wrote to him for a copy of them. We wanted the figures he had been using and which had been published, and so we have his letter.

THE CHAIRMAN: That is accepted as informative only, no witness being here for examination.

MR. FILLMORE: The value of these figures might depend on whether the cooperatives are tax-free in that jurisdiction.

THE CHAIRMAN: The figures are purely informative; that is all.

BY MR. PARKER:

Q. What is the next? A. The next and last is a copy of an address delivered last October in Chicago, which address I heard, by Judge Arnold, who used to be the head of the anti-trust division in the Attorney General's department of the United States.

Q. What is he now? A. He is a judge of one of the superior courts in the United States and he gave an address in Chicago dealing with the significance and effects of --

Q. If that is a copy of the address it will speak for itself. A. Yes. It deals with --

Q. It speaks for itself. A. Very well. I will not describe it further. That is all. I just wanted to make a brief reference to these documents which are filed for the information of the Commission.

Q. Is that all you wish to say about them? A. That is all, thank you.

Q. Now let us begin by clearing the ground a bit, so that we may see on whose behalf you are appearing. Your official position is president of the National Co-operative Union? A. Well, the Cooperative Union of Canada, which is the official title.

Q. I may be repeating some questions that have been asked before, because it is some little time since this brief received my attention. Is this organization an incorporated body? A. It is not incorporated.

Q. I believe it is in process of being incorporated? A. No. It is in process of reorganization and consolidation on the basis of provincial sections. Hitherto it has been a union of individual cooperatives throughout Canada and now it is being reorganized on a new basis.

Q. Is it being reorganized under statute or by voluntary action? A. By voluntary action on the part of Canadian cooperatives.

Q. On the part of provincial cooperatives? A. Do you wish me to describe the structure?

Q. No. Just answer that question, if you please. The proposal you have in mind is to set up this organization by having the provincial cooperatives come together. Is that correct? A. May I explain it in this way. I think it will be as concise as any answer I can give would be. In the original structure, there was one union with individual members, each member being a cooperative association. In the new structure the national union will be a federation of provincial unions.

Q. That is what I asked you, if it was to be a coming together of provincial unions? A. Yes; that is right.

Q. And it is to be a purely voluntary coming together? A. That is correct.

Q. How far has that proceeded? How many provincial unions have definitely indicated willingness or a desire to come into the national union? A. British Columbia has been organized as a section of the union for about a year

approximately. Saskatchewan has been functioning for some four years. Ontario is organized now on a provisional basis as a section of the union, with a finalizing meeting called for early in June. Nova Scotia is organized and so is Prince Edward Island. Quebec has had an organization for some little time, the superior council which, although it has not yet formally become the Quebec section of the union, will be a section, I expect, in the not distant future. With regard to New Brunswick, steps are being taken to bring the matter to a head this summer. In Alberta the subject has been under discussion for some time but as yet no provincial union has been formed. In Manitoba the situation is somewhat the same. So that with the exception of Alberta and Manitoba, the provincial sections are either definitely organized and functioning or they are in process of organization.

Q. My question was directed to ascertain how many of the nine provincial organizations have definitely committed themselves as being desirous of coming into this national union? A. Seven of the nine have been organized -- all that have been organized.

Q. I asked you how many and you have told us seven. Can you not stop there for a moment like a good soul. Now, when you speak of being organized as a section, what do you mean? How is the national union to function? A. That would involve the new constitution of the Co-operative Union of Canada.

Q. Has the constitution been prepared? A. It has.

Q. Have you a copy of it? A. Not in this room, but I have it in the hotel.

Q. Has it been approved by the seven provincial bodies?

A. It cannot be approved by the provincial bodies. They adopt their own constitutions. The national constitution will have to be approved by a national meeting which is scheduled for this fall.

Q. I am asking you if the national constitution, as drafted, has been approved in any way by any of the individual provincial organizations who are about to join the national? A. I would say yes, definitely.

Q. How many of them? A. In so far as the provincial unions have any power to approve, it has been approved by the seven.

Q. You filed this brief some months ago. Can you tell me as briefly as possible on whose behalf you have authority to speak. Whose spokesman are you? Before you answer, let me make clear exactly what I am after. As you know, we have heard from a great many cooperative institutions across the country, large and small, producer and consumer and a combination of the two, representing a great many thousands and hundreds of thousands of individuals. Can you give me the number approximately of the people on whose behalf you are prepared, and have authority, to speak this morning?

A. I think I shall have to answer the question in this way. About a year ago a national conference of cooperatives was convened in the city of Winnipeg, and so far as my recollection goes -- I have not the exact roll call with me -- it was representative of practically all parts of Canada from British Columbia to the maritimes. The attendance was approximately 50, 50 representative cooperatives from all over Canada, and as a result of that certain action was decided upon which eventually led to a number of other national conferences and led to the

preparation of this introductory brief.

Q. Pardon me for interrupting you, Mr. Good, but you see the position. If I am going to ask you questions that can be answered directly and you are going to take five minutes or more to answer each question, covering two or three pages, we shall never get through. Can you not shorten it? The question was, approximately how many, and what groups, are you representing to-day? I do not want the history of the movement at the moment, or references to various meetings. I am not interested in that just now. Can you not tell me approximately the number of people whom you represent? A. I can give an estimate.

Q. You started to tell me about meetings in Winnipeg. Can you not tell me how many people you represent? A. I would say this brief represents at least 75 per cent of the Canadian cooperatives.

Q. For instance, you are going to submit later in the day certain recommendations -- A. Yes.

Q. Do I understand that when you come to that part of your story you are able to speak on behalf of that same 75 per cent? A. Yes, and perhaps more.

Q. I want to know whether you have authority to speak on behalf of the Saskatchewan pools. Is that included? A. I wonder if I might --

Q. Be good enough to answer that question. Are you speaking on their behalf? A. I intended to explain on whose behalf I am speaking this afternoon.

Q. Is there any reason why that question cannot be answered? How many people are there on whose behalf you are speaking? Either you are speaking on behalf of a certain number of people or you are not. Which is it?

Can you not answer that question? A. It is difficult to answer it yes or no without being misunderstood.

Q. I am not asking you to answer the question yes or no. I am asking you now whether you represent the Saskatchewan Wheat Pool? A. Those of the Saskatchewan Wheat Pool officials who participated in our discussion of these recommendations did agree. It has not been possible to refer these recommendations to all the membership of all cooperatives all over Canada, but as far as the officials are concerned, I think I can assure you that, as far as Saskatchewan is concerned, there has been concurrence.

Q. With that explanation, is it clear that you are here to-day with authority to speak, in respect of the questions which I put to you, on behalf of the Saskatchewan Pool? You either are or you are not. A. No. I am not empowered specifically to speak on all matters on behalf of the Saskatchewan Co-operative Producers.

Q. Are you authorized to speak on their behalf with respect to the specific recommendations? A. I think I am.

Q. Do you know whether you are? A. As far as I can ascertain.

Q. Is there any doubt about it? A. Not as far as the officials are concerned.

Q. How did they give you authority? A. By word of mouth.

Q. Who gave it to you? A. We shall have to have Mr. Wesson back.

Q. No. You do not have to have Mr. Wesson back.
A. There were some representatives. Mr. Wesson and Mr. Milliken have expressed concurrence.

Q. Did they authorize you to appear as their spokesman

on this question of specific recommendations? A. Yes, certainly.

Q. Did the Alberta Pool do the same? A. I would prefer not to answer that question.

Q. I prefer that you do, unless there is some good reason why you cannot.

MR. FRANCIS: Mr. Good has stated that Alberta and Manitoba have not yet organized unions and he does not propose to speak for the unions of those provinces because there are no unions.

MR. PARKER: I am talking about the Alberta Pool.

THE CHAIRMAN: The answer is in the negative: "I prefer not to answer".

BY MR. PARKER:

Q. What about Manitoba then? A. I think that in regard to Alberta I should say this, that in so far as any of the officials of the Alberta Wheat Pool were competent to commit their membership they expressed concurrence.

Q. What about Manitoba? A. The situation is the same in Manitoba.

MR. VAUGHAN: What about the grain growers?

THE WITNESS: They did not officially participate in our meeting.

MR. STEER: And are not members of your organization.

THE WITNESS: Not at the present time.

MR. STEER: And for a long time back.

THE WITNESS: Since the year 1929.

BY MR. PARKER:

Q. Let us take them all together. As you know, we have had cooperative societies of one kind and another, starting in the west with the Fraser Valley people? A. The milk

producers, yes.

Q. And the big dairy pools of the western provinces, the fruit growers in British Columbia and Nova Scotia, the wool growers, and so on, all across the country. Are you here to-day to speak on their behalf? Are they all included in the recommendations, speaking generally? A. In regard to the Fraser Valley milk producers, I am not sure whether they are in the British Columbia union or not. I would not be certain of that.

BY MR. NADEAU:

Q. While we are on this point, do you represent also the credit unions? A. The credit union situation is a little different, Mr. Nadeau. They have been operating very largely under provincial leagues, and these provincial leagues are either members or potential members of the provincial unions. But the credit union movement of Canada as a whole has not yet officially linked up with the national union.

Q. And is it the same in regard to the mutual fire insurance companies? A. Yes, very much the same with respect to the mutual fire insurance companies.

Q. They do not concur in your proposed recommendations? A. I am not sure about the credit unions, but they have not been officially consulted.

BY MR. PARKER:

Q. I put them all together. You started to tell us something about the Fraser Valley milk producers. What about all the rest -- the dairy pools, the fruit growers, the wool growers and so forth? Are you speaking on behalf of all these? A. It is difficult to understand exactly what is meant by the term "on behalf of". I believe I am; but probably at this particular stage in our organization without

their official commitment and endorsement --

THE CHAIRMAN: What you mean is that in so far as they are in the provincial organizations you represent them?

THE WITNESS: Yes. I think it should be said, however, Mr. Chairman, that in a voluntary union of this sort any member is at liberty to dissent on any particular point. If it is a minor point the right of dissent is taken for granted. To what extent it exists, I do not know, but I think to a very slight extent.

BY MR. PARKER:

Q. What I am getting at is this. Let us assume that this Commission in due course makes certain recommendations to the government, and let us assume further for the sake of argument that these recommendations are substantially what you are going to suggest. I want the Commission to be in a position to say that in making such recommendations it has the support of such and such a section of the people affected, or that it has not the support of those people. I want that in a concrete manner, so that in any recommendation that may be made, either in favour of your proposals or against them, it can be made clear what sections of people desire to have such recommendations put into effect and what sections do not.

You see what I am driving at. Can you clarify that? A. Mr. Parker, the Co-operative Union of Canada is the only national cooperative organization existing at the moment and the only one that has existed for several decades. It is impossible to certify that any pronouncement of the majority of those inside the union would be acceded to or agreed to by everyone of the very many thousands of co-operatives in Canada. I could tell you about concurrence in

respect of these recommendations, and in fact I intend to do that this afternoon or whenever these recommendations are made.

BY MR. ARNASON:

Q. Is the cooperative union a member of the International Co-operative Alliance? A. It is and has been for many years.

BY MR. PARKER:

Q. That is what bothers me even yet. This national cooperative union, I understood, was only in process of being born. A. Oh no; not at all. It has existed --

Q. It is a reorganization? A. It has existed since 1909.

Q. Let us come to the brief. In the latter part of the second paragraph you say: "And those who have followed the history of the movement since that time know that every genuine cooperative that has been devised and launched has been for the purpose of serving more adequately the needs of people." I am calling attention to the word "genuine" there. Is the Commission to infer from that statement that there are in this country a lot of what we have heard termed so-called cooperatives, which are not genuine cooperatives? A. I would not say a lot, but I know of some.

Q. Quite a number? Give us some idea. A. I would not say there are very many. It all depends on how you define genuine.

Q. That is what I want to direct your attention to.

A. I think, Mr. Parker --

Q. Just a moment. You and I will have to get on some common basis or we shall be here for the rest of the week. You make a distinction in your brief between cooperatives,

because you speak of "genuine" cooperatives. I assume therefore there is some other kind that is not genuine, which you have in mind. Will you please make the distinction clear?

A. I have in mind one that I could tell you about.

Q. Be good enough to distinguish between those that are genuine and those that are not. You say there are one or two in the country that are not genuine. I will not ask for names, but I should like to get from you a statement of what constitutes a genuine cooperative, as that term is used in this brief. A. That will be answered in our recommendations.

Q. But I wish to have the question answered now, if you do not mind. A. It is given in the definition of "cooperative" as the national movement regards cooperatives and I would have to give the definition that is incorporated in our recommendations.

Q. We have been put off from week to week and month to month, and I thought that to-day we would finally get to the point where you would be in a position to give us the distinction. A. Why should we enter into that before the recommendations are submitted.

Q. If the Chairman tells me that I should desist I will do so, but I am asking you now to make the distinction between cooperatives that are genuine and those that are not. A. Mr. Chairman, if I may appeal to you, that is answered to the best of our ability in the recommendations, and that will come on in due course. If it is held over to that time I shall be prepared to answer the question as fully as I can.

Q. Will you be better prepared to answer the question this afternoon than you are now?

THE CHAIRMAN: I presume Mr. Good is anxious to preserve the continuity of the brief.

BY MR. PARKER:

Q. It would assist me in the conduct of the examination if I could get from you now, Mr. Good, in connection with my examination on the introductory brief, a statement making clear that distinction. However, I am in the hands of the Commission. A. I would very much prefer that it be postponed.

Q. Can you give some logical reason why the answer to that question should be postponed? A. In order to preserve the continuity of the presentation. I think the understanding was that the recommendations would be made at the end and I am prepared to make those recommendations at that time.

Q. I am not asking you about recommendations. I am trying to understand this brief. A. The recommendations incorporate a definition of what we regard as a true co-operative.

Q. But in order to carry through the brief I would like to know what you start off with.

THE CHAIRMAN: I think the point is well taken, Mr. Parker. Mr. Good will deal with that point when we come to the recommendations.

BY MR. PARKER:

Q. You say further: "And it is surely significant that within the short space of a century the tiny seed has grown into a mighty tree, bearing fruit for the healing of the nations and sheltering under its branches one-fourth of the human race."

That is a pretty broad statement. Can you tell me on what authority you make that statement? A. That statement was made on the authority of statistics of the International Co-operative Alliance.

Q. Have you any knowledge of how many cooperatives there are in British India? A. I have no personal knowledge at the moment.

Q. Or in China. A. There are a great many, yes; there are a great many indeed, tens of thousands of them.

Q. There are hundreds of millions of people in India and China. A. I could secure for you the statistics of the International Co-operative Alliance.

Q. We come now to page two where you make reference to the Hot Springs conference, which has been referred to. At that conference the following recommendation was made:

"That all countries study the possibility of the further establishment of producer and consumer co-operative societies in order to render necessary production, marketing, finance and other services."

You know what I am referring to. A. Yes, I do.

Q. Was anything said at that time; was there anything contained in the recommendations to the effect that cooperative societies should be assisted by way of taxation exemption? A. Unless by inference or implication in those words.

Q. Do you read that as a recommendation that they should receive taxation exemption of the kind that has been in discussion before this Commission? A. The word "exemption" ---

Q. Would you be kind enough to answer my question. A. I beg your pardon?

Q. Would you be kind enough to answer my question.

A. I wish you would let me answer it in my own way.

Q. I would be glad to let you answer it in your own way if you would only answer it without making these long statements. A. Your question is as to whether or not there is an implication in this recommendation from Hot Springs to the effect that governments ought to give special privileges to ---

Q. No, that is not what I asked you at all.

A. That is implied in the word "exempt"?

Q. I was asking you if there is anything to suggest that, and if so, what? A. It might be inferred, but I am not saying that it is. It might be inferred, but I do not like the use of the word "exemption" because it implies more than we have ever asked for.

Q. I was going to follow that up with my very next question. Do you know of any authority in the cooperatives anywhere who have demanded that they are of such a nature that they ought to receive taxation exemption from their various governments? A. There are a great many people who believe that the special social significance of cooperatives entitled them to special consideration at the hands of the government.

Q. Do you consider that an answer to my question?

A. I think so.

Q. I am asking you if there is any authority in the cooperatives anywhere who advocate that the cooperatives should receive taxation exemption by way of assistance in order to help them to carry on their work.

A. I could not answer the question without having some understanding as to what is meant by "taxation exemption". We have always objected ---

Q. You do not understand what I am saying when I

put that question. A. No, I do not.

Q. All right, if you do not understand the question, do not answer it. A. We will have to come to some understanding as to what is meant by that.

Q. I cannot make it any plainer; if you cannot understand that, I am helpless. A. I would say taxation immunity.

Q. You have not read among the authorities on co-operatives the statements to the effect that the very last thing cooperatives want is taxation exemption, that if they could not stand on their own feet there was something wrong, or words to that effect. A. I do not know of any cooperative authority that has ever asked for anything in the way of special privilege.

Q. That is the converse to what I was asking you. I was asking you what you had seen, not what you had not seen. A. Your question ---

Q. Just a moment. My question was if you had seen statements by authorities on cooperatives to the effect that they did not want taxation exemption. A. Certainly, I have seen many of them.

Q. Why did not you answer that when I asked it the first time instead of making a speech? A. Taxation exemption implies a good deal.

Q. It might imply something to you, and something different to me. A. I gave my answer subject to some understanding as to what that phrase meant.

Q. Then the next paragraph on page two reads:
"Furthermore it is important to bear in mind that co-operatives, while in their inception designed to benefit certain groups of people, are institutions increasingly committed to the public welfare and

that the preamble to the recommendations made at the Hot Springs conference set forth several specific respects in which cooperatives did serve the public welfare and were, therefore, entitled to sympathetic treatment at the hands of every government purporting to be democratic."

Is that a direct quotation, or are the words "sympathetic treatment" your own words? A. It is not a quotation so far as I know. I think if it were it would be in quotation marks.

Q. Those are just your own words. A. Yes.

Q. What do you mean by "sympathetic treatment"? Do you include in that sympathy manifested in the form of taxation exemption or not? A. I object, Mr. Chairman, to the use of this phrase "taxation exemption" because of its implications.

THE CHAIRMAN: Taxation exception.

THE WITNESS: Immunity from taxation.

THE CHAIRMAN: Statutory immunity from taxation.

THE WITNESS: It is immunity from taxation; not all taxation, but immunity from income or profits taxation. That is all we mean in regard to sympathetic treatment at the hands of governments. It seems to me that from time to time every government has, for reasons which seemed to fit the case, assisted in the development of various groups and sometimes of very large classes of individuals who were in need. I believe that a very strong argument could be advanced presently in favour of very definite encouragement of cooperatives at the hands of governments. I am not making a plea for anything in the way of financial subsidies, but I do believe, I honestly believe that a strong argument in

that direction could be advanced.

BY MR. PARKER:

Q. Let us go to page three where we come across the very troublesome word we started out with, that is, "profits". On page three of the brief you endeavour to clear the ground in this connection. I must confess that it is not particularly clear to me; it is not particularly clear to my befuddled mind as to just what it is. Can you add anything to what is in your brief as to what just profits are, or is that as far as you care to go? A. In the accounting practices of cooperatives the usual terminology has been used. The phrases "gross profits" and "net profits" are in current usage. The cooperator does not interpret those phrases in the same way as a joint stock company shareholder and unless we get a new term we are always liable to confusion by reason of using some term which may mean two different things. There are similarities and there are differences, just as you know that there are similarities between the ordinary joint stock company and the cooperative. So far as taxation is concerned the question arises as to whether the similarities are the important thing, or the differences. I do not know whether I can illuminate it any more than to say that we are in difficulties in regard to using the term.

Q. I was just wondering whether you could make it any clearer than you have in your brief. Now we will go to the bottom of page three where you speak about the purpose. This has been troubling us; this has been troubling me, at any rate. Do you suggest that the purpose which the members of a cooperative have in mind when they organize their business and carry on, should

be looked at in order to ascertain whether or not the co-operatives are making profits in their business transactions, or do you say that the purpose of carrying on the business cannot possibly have anything to do with the question of whether or not profits should result from them, or savings, as the case may be? A. I think the purpose is entirely relevant because it carries with it a fundamental distinction. The general argument of co-operatives in respect to profits or income is that the cooperative as such has neither. I speak now, of course, of strictly member business. Now then, if in the cooperative's balance sheet or in the operating statement the words "net profits" are used, they do not signify the same thing to the cooperator as they do to the shareholder of a joint stock company. They signify something entirely different.

Q. In other words, you take the ground that the purpose or the intention --- A. I think it is entirely relevant.

Q. All right. A. If you will examine the words that follow, "to give service to its members at cost."

Q. Supposing that is their intention, but they do not carry it out, would the intention override the actual result? A. If the purpose has not been fulfilled in the cooperative, if it has not done what it set out to do, then of course it is open to criticism.

Q. Not only open to criticism, we must look at the facts to see whether in fact they did that. A. I think we certainly should examine whether or not the purpose has been attained.

BY THE CHAIRMAN:

Q. Must the tax gatherer interpret the word "profits" from the point of view of the cooperative or from the point of view of the ordinary joint stock company? Must he adopt the cooperative's view of the word "profits"?

A. Not necessarily, no. I think it may be up to the officials or to parliament who set up the tax gathering machinery to make a distinction arising out of the different purposes, but I think ---

Q. As a matter of fact, does not that distinction already exist? A. To some extent it does, yes, and has from the very beginning. Perhaps I may be permitted to refer to one part of the Income War Tax Act where you will find a whole list of exempted incomes. There is a reason behind those exemptions. For the most part I think those are organizations, which have no taxable income or profit and no income or profit within the meaning of the Act.

Q. You say that this is merely clarifying the law as it already exists. A. It seems to me that the non-profit organizations are automatically, if you like, or inevitably exempted from taxation, not because they want any special privilege but because they have nothing to tax within the meaning of the Act.

Q. Then getting down to cases, section 4 (p) is entirely unnecessary. A. We never had any satisfaction out of section 4 (p), and nobody has. It may be argued that it is not necessary, but it does attempt to set up a definition of cooperatives. You see, there has always been difficulty in distinguishing between organizations that are strictly non-profit and those that are partly non-profit and those that are wholly otherwise. So far as I can see section 4 (p), which

as a matter of fact was taken from the American law and put into ours, has as its chief purpose the giving to the taxing authorities of some way to distinguish in this field of cooperatives, which includes a great many types of organizations, what are the distinguishing characteristics of cooperatives. It is extremely inadequate and very ambiguous, as everybody knows.

Q. I propose to ask you later when you come to your other brief what are the principles of the cooperatives. A. Very well.

BY MR. PARKER:

Q. A moment ago you referred to the fact that the Income War Tax Act gave certain types of exemptions and that the subsections of section 4 (a) to (p) were based on the idea that there was no income. A. That is right.

Q. Let us examine those subsections for a minute. Subsection (a) refers to the income of the Governor General of Canada. Do you think that that is literally a true exemption or is it because he has no income?

A. I really think that one falls outside the general class.

Q. Take the next one, (b) which refers to the income of officers or officials of a foreign country whose duties require them to reside in Canada. You would not think it would apply to that type, either, would you? A. No, that is in the same class with the Governor General.

Q. Then, subsection (d) refers to the income of any company not less than 90 per cent of the stock or capital of which is owned by the province or municipality. Do you think it would apply to that one? A. To some

extent, yes.

Q. You say they do not have an income? A. You can speak of a municipal corporation as having an income.

Q. They do have an income, and the authorities have seen fit to exempt them from income tax.

A. Whether they have a taxable income is another question.

Q. I was talking about whether it is exempt. A. I would like to refer to most of those further down the list where you have a great many organizations.

Q. Do you want me to go through them all? I am not going to take the time to go through them all. A. I submit that, generally speaking, with the exception of certain distinguished persons from abroad and municipal organizations ---

Q. It will take only a minute to go through them. I want to be perfectly fair to you. The next is subsection (e) which refers to the income of any religious, charitable, agricultural and educational institution. Then, section (f) refers to labour organizations; and subsection (g) refers to mutual corporations, such as life insurance companies. We have been dealing with that before. Subsection (h) covers the income of societies doing welfare work. Subsection (i) covers the income of insurance, mortgage and loan associations. Subsection (j) covers the income derived from bonds or other securities of the Dominion of Canada. Subsection (k) covers the income of companies whose business and assets are carried on and situate entirely outside of Canada. Subsection (l) covers pensions of service men and that sort of thing. Subsection (m) refers to the income from foreign ships.

2 3 4 5

Subsection (n) covers dividends received by one corporation from another. Subsection (o) covers dividends received from a foreign corporation. Then we come to subsection (p), the one that is before us now. Then the next is subsection (r) which deals with dividends from wholly owned subsidiaries of non-resident companies. Then subsection (s) which deals with dividends of a company incorporated in Canada which has never paid a tax because of the provisions of sections 89 and 90. I do not think I need go any further. A. I submit that there is a very large proportion of those, or a large proportion that have the characteristics which are described as non-profit making. That is, they are not making anything in the way of what might be called income that would go to the advantage of any investor in them or any shareholder. It is just like a church. A church may be said to have an income. I do not think I need pursue the matter because the Commission is able to judge for itself on looking over the list just what is the underlying principle.

Q. I think we will have to discuss that later. I will just get on now to the question of control.

A. What page is that?

Q. At the bottom of page three and the top of page four. You say:

"The ordinary joint stock company is controlled on the basis of financial interest, e.g. 'one share one vote'. Therefore, any small group, or even a single individual may 'buy up a controlling interest' in the company. Control is

consequently undemocratic. The cooperative, on the other hand, is controlled on the basis of 'one member one vote', irrespective of the number of shares owned by any individual. Therefore, it is impossible for any small group to secure control of a cooperative. Its control is based on democratic principles."

Why do you say that the method of voting in a joint stock company is undemocratic, one share one vote? What is there undemocratic about that? Perhaps I can help you a bit. Do you mean by democratic that one man should have one vote, the same as in our elections; that the millionaire should have no more voting power than the poor man. Is that what you mean by that? A. By and large, yes. That is one of the elements of democracy. Surely the rich man should not have more power in regard to public policy than the poor man.

Q. That is, his voting power should not in any way be related to his money wealth. A. Certainly.

Q. You realize that that is the rule in the ordinary elections, such as are now facing us, but do you think that applies to the ordinary joint stock company

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where many men of different degrees of wealth put up sums of money, perhaps their earnings of a lifetime, perhaps acquired from a multitude of different sources, and they venture and take risks in order to establish an industry. They employ labour, they take care and supply the necessities of life indirectly to a whole community, whereas the small man is quite unable to do that even though he may desire to do it. Do you not think that money invested in that way should have control of that company in proportion to the amount of capital that the individual risks in it? Do not you think that is a sound doctrine? A. I think, Mr. Parker, I can put up a far better argument on behalf of that position than anything I have heard before this Commission. On the other hand, every citizen is permitted, I think, under a free society, to choose different forms of business. While there may be arguments for the joint stock set-up, I believe and most cooperators believe that the argument on the other side, that is in favour of the cooperative set-up, is much stronger and that it is a preferable form of business organization.

Q. Nobody has any objection to there being a difference of opinion on that important point. I simply want to know why you think the joint stock company is in a sense undemocratic. A. That is obvious. Everybody knows that certain individuals in Canada and the United States have got controlling interest of a great many concerns, and that leads directly to economic dictatorships.

Q. I realize that in Canada and in the United States powers are pretty well centered in the hands of

the executive rather than in the voters scattered all through the country, but I do not consider our government to be undemocratic by reason of that. Do you?

A. Some may disagree with you, at least in part, on that and contend that there should be a more continuous check on those in executive position. It is a debatable question.

Q. Let us take the converse position and see what you have to say about that. You believe in the principle of one member one vote. A. Yes.

Q. I believe that was one of the fundamental principles of the Rochdale pioneers. A. Definitely.

Q. You have heard evidence given before this commission on more than one occasion in connection with the delegate voting by the big pools. A. Yes.

Q. You heard me put questions to certain representatives where it was brought out that in connection with one of the pools the directors, without consulting the shareholders, would divide up the territory into what they called locals. They would decide the territorial boundaries and the number of members in those locals would vary anywhere from fifty to 200. They would meet together to elect a delegate and the different delegates would then meet together to transact the business of the organization, including the election of directors. That is the way it works. A. It does.

Q. Under the by-laws of the particular organization that I was investigating it was provided that the shareholders would have no authority to meet in annual meeting at all. That was expressly laid down. The shareholders could never meet in annual meeting to transact

the business of the organization. A. Not because they have not the right, but because it is not feasible and sensible.

Q. The rights have been taken away from them. What I am leading up to is this: let us take five different locals from which delegates would be elected. We will say that in No.1 there are fifty members; in No. 2 there are seventy-five members; in No.3 there are 100 members; in No.4 there are 125 members; and in No.5, which is the large one, there are 500 members. Each local elects one delegate irrespective of the number of members.

A. Pardon me. Are you giving an actual fact or simply quoting a hypothetical case?

Q. I am summarizing what was given as evidence the other day by a witness.

MR. FRANCIS: On behalf of the United Grain Growers.

MR. PARKER: Yes, I think that was one. They are a cooperative, at any rate.

MR. FRANCIS: They are not members of this union.

MR. PARKER: Perhaps that 75 per cent needs whittling down a bit.

MR. FRANCIS: Those are the facts that were given.

MR. PARKER: That is quite true; that is the one I am using as my illustration.

BY MR. PARKER:

Q. Supposing those five delegates meet and some question comes up in connection with which a vote has to be taken. The one delegate representing 500 members has only one vote, whereas the other four delegates -- perhaps I have carried it a little too far; perhaps I should have stopped at four. Let me put it another way. The

delegate representing the local with fifty members means that each member of that local has 1/50th of a vote.

A. Quite so.

Q. Each member in the local of which there are seventy-five members would have 1/75th of a vote.

A. Yes.

Q. I think that is exactly the opposite of what the Rochdale pioneers had in mind, namely, one member, one vote, not one man, 1/50th of a vote or one man, 1/200ths of a vote. What do you say about that? A. The problem of getting what we call complete accuracy of representation is a very difficult one in practice, but in respect to the particular figures which you have cited I would say that to the extent that equality of voting power is departed from in the case of the individual members in the different locals, democratic practices and principles are to that extent departed from. There may be extenuating circumstances and reasons why he has not been allowed to vote. You know, and everybody knows, that from time to time we have redistribution of our constituencies because of shifting population and that kind of thing. We have not got in our parliamentary institutions and practices the same accuracy which you suggest is important and which I agree is important, but I have heard many arguments in parliament in connection with redistribution to the effect that under certain circumstances the unit of representation should differ from what it is under other circumstances. It is a debatable question.

BY THE CHAIRMAN:

Q. Do you mean that in practice you can depart from

your principles? A. I am not advocating it at all, I am simply expressing my opinion. If there is any great disparity, it ought to be corrected. I think the delegate system is inevitable. You cannot call a hundred thousand shareholders to a meeting.

Q. Obviously, but that does not change the principle of the Rochdale pioneers. A. I think the principle should be adhered to.

Q. As far as possible? A. As far as possible, but I suggest in this particular case--I see Mr. Law over there listening to me--that it is up to the board to correct any disparity that exists now, if I may be permitted to give some advice indirectly. I think they would be very willing to do that.

BY MR. PARKER:

Q. Perhaps that is a reason why he is not a member of the union, because you want to take him in under those conditions. A. No, not at all. That is a long history.

Q. Leaving out the United Grain Growers and taking some other large cooperative. Would not the same thing obtain, as I have just mentioned, only to a lesser degree?

A. I think not to any great degree. I am not familiar with the exact situation, but I know that in so far as Ontario is concerned, for years the representation has been largely on a membership basis, that is by delegates. There are other factors that enter into it, particularly in the relationship between the locals of the cooperative and the wholesalers or federations, and there are modifying circumstances.

Q. All right, let us get on. Growing out of what you have just said--perhaps not growing out of it--there

is another argument which you advance in your brief on page five. You give an example of 1,000 farmers in a mutual fire insurance company and then you say:

"In the first case the surplus both morally and legally belongs to the 1000 farmers; in the second case the surplus legally belongs to the private insurance company."

Are you contending that the moral argument should enter into the question? A. Certainly it does.

Q. In what way? A. There must be some kind of equity to justify any system.

Q. I agree with that about equity, but you say:

"In the first case the surplus both morally and legally belongs to the 1000 farmers."

Let us assume that it belongs morally, but not legally. Do you think that any effect should be given to the fact or to the argument that it belongs morally when it does not belong legally? A. That poses a rather important social problem.

Q. I do not want you to treat it as a social problem, I want you to answer my question. I want to know what your considered views are. A. I think you will see that I am answering your question if I can answer it in this way. If there is a conflict between a moral obligation and a legal obligation, it is a pretty serious matter to decide. It seems to me that for the time being under the law the citizen has to obey the law whether or not he thinks it is unjust. The problem of law and democracy is to bring about harmony between the law and the conceptions of justice and equity that prevail.

Q. I do not want a lecture on the moral phases of

the law. I was merely asking for your considered views. I was asking if you think that the moral argument should apply, or whether you think the moral argument should follow the legal. A. No. In organized society the person must obey the law even though he may think the law is wrong.

BY MR. ARNASON:

Q. Outside of the strict legal obligation upon the citizen, there is the moral obligation to obey the law.

A. Certainly.

BY MR. PARKER:

Q. Another question has been raised, what I would term the selfish argument as distinguished from the altruistic argument. The whole purpose and design of the co-operative movement is to bind themselves so that they can help those who are banded together and let the devil take care of those outside the circle. Is not that a fair way to put it? Does not that describe the cooperative philosophy? A. I wonder if you will permit me to postpone answering that until we take up the supplementary brief.

MR. PARKER: Again I am in the hands of the Commission, but I cannot see why you cannot answer it just as well now as waiting until this afternoon.

THE WITNESS: It will certainly fit into that a little better.

THE CHAIRMAN: The trouble is that we have allowed so many briefs to be filed by various parties, supplementary and otherwise, that we find ourselves in the position of having to try to get them together. Please do not forget that question this afternoon.

MR. PARKER: I may forget it entirely.

THE WITNESS: I think it will come up.

BY MR. PARKER:

Q. There is just one other question. We have heard a great deal of these cooperatives doing business on an agency basis as distinct from where they buy and sell outright. I should like to deal with the agency basis first. In this case a man sends his produce to the cooperative to be sold for the best price obtainable, and after deducting costs he is remitted the balance. You say that that balance cannot possibly be a profit? That is your argument.

A. It is hard for the layman to understand the distinctions which are sometimes drawn legally between an agency and outright purchase and sale. I cannot see from the cooperative point of view any distinction at all. There may be a distinction which lawyers use and which is a necessary distinction, but let me put it this way. My conception of a cooperative is that it is an extended partnership. Now, if you have a partnership of two, obviously the law regards it in such and such a way. If that partnership of two becomes twenty, and they are still able to function as a partnership, the same treatment will prevail. If that is extended to 200, and for certain practical reasons incorporation would seem desirable, it does not seem to me, and I submit this as a layman, that the principle underlying the cooperative has changed. In practice the principle remains as it is in the extended partnership. I fancy that our counsel would probably deal with that matter because I do not count myself competent to do so.

Q. I was not dealing with that matter at all and I wish you had left it to your counsel to deal with it.

A. I may have misunderstood you.

Q. I say, not as a lawyer or not as a cooperator but just as plain man to man; what I am asking you is this: when a producer hands his wheat or whatever it may be to a cooperative on terms that the cooperative is to sell it for him at the best price they can get, and after paying the costs of handling to pay him the balance, you say that that balance cannot by any stretch of the imagination be called a profit. A. I do not think so within the meaning of the Act.

Q. Let us stop there. I agree with you, for the moment, at any rate. But if instead of delivering his produce on those terms he sells it to the cooperative at an undetermined price and, if it is wheat, he draws, let us say, \$1 per bushel when he delivers it with the distinct promise that after the wheat is disposed of, if there is any balance, it will be paid to him, and if there is not, of course he will not get anything. Supposing in that case there is something left over, is that a profit? A. No.

Q. Let us take the third case. Supposing he sells it to the cooperative for the fixed price of \$1 per bushel. He takes his money and goes home and the cooperative sells it for \$1.25. The cooperative pays expenses and there is 10 cents per bushel left over. Is that a profit?

A. Well, certainly it is different from the other.

Q. I know it is, that is why I put it to you. In the **first** case you say there is no profit, but is there a profit in the third case? A. I would regard that third transaction as being definitely a non-cooperative transaction. I daresay you would never find that, as far as I know, happening.

Q. I think we have had an abundance of evidence before this Commission that institutions which maintain that they are cooperatives were buying commodities outright at fixed prices and selling them. A. You mean without any obligation to give service at cost?

Q. Yes. We will take it both ways! First, without any obligation to give service at cost and, secondly, with an obligation to give service at cost. A. If there is an obligation to give service at cost and it is not given at cost, then the obligation is not fulfilled.

Q. All right, but is it a profit? A. Call it that if you wish.

Q. No, it is not a question of what I wish to call it. A. My view is that it falls exactly in the same category as the profits of an ordinary joint stock company.

Q. All right, one question more. In the operation of the ordinary cooperative--I am speaking now particularly of the producers' cooperatives which sells the members' produce under an obligation to return to him any surplus less necessary and proper reserves which may be determined by the directors--do you make any distinction between the amount which it may pay back to the producer member and the amount which they hold as a reserve, in so far as profits are concerned? A. So long as reserves are what may be called necessary reserves, I see no distinction. That is provided we can agree upon what are necessary reserves.

Q. That would have to be in the judgment of the directors, and we will assume that they are acting in a bone fide manner. A. I see no essential distinction, that is to say if the reserves are necessary.

Q. You need not go into a long explanation; I merely want your answer. Now then, if the amount that is paid back is paid in the form of a patronage dividend, I understand that you contend that that is not profit at all.

A. Yes.

Q. I am speaking in terms of taxation. There is the dividend that is paid at the end of the accounting period to a member, and the amount that is allocated to him but not paid back until the end of three, four, or five years, as the case may be. A. You mean with respect to taxability?

Q. Yes. A. Providing the allocation is reported as income when it is made.

Q. Reported by? A. Reported either by the cooperative or by the individual to whom it is allocated, or by both. Provided it is recognized as taxable income in the hands of the recipient, then I do not see any difference.

Q. Would you consider that taxable income in the hands of the recipient in the period in which it is earned or is it income in the hands of the recipient five years later when he actually receives it? A. It ought to be recognized as income in the year of allocation.

Q. And you do not agree with the suggestion, I take it, that during the three, four, or five years that it is retained by the cooperative and used by it as working capital that it should be treated as income in the hands of the cooperative? A. It cannot be income in the hands of both at the same time.

Q. That is quite true. What about investment income that results from the investment of these funds

until such time as they are paid back, as well as investment income from the reserves. A. I suppose no co-operative would invest working capital in interest-bearing securities. Our view is that so far as securities as necessary reserves are invested in interest-bearing securities, the interest on that is not different from the interest on anything else, that it should be equally immune. But I am not just sure what you visualize, Mr. Parker, in respect to the use of the dividends that are retained. You say working capital and I assume you exclude the necessary reserves?

Q. Yes. I would like to treat them separately. First, there are the reserves which are set aside as such, and then there are the allocated dividends that are held back. Are they on the same footing? I want you to deal with the reserves which are set aside as such, and the dividends which are allocated but not paid. A. I would say that the allocated dividends that are paid after a period of years are really working capital loaned by the individual member to the group for operating purposes. Now, that individual may be willing to lend it without interest or at any interest that is agreed upon. I do not think the matter of interest comes into it because that is a matter for determination and agreement between the two parties.

Now, in regard to this matter of investment income. It is, I presume, a debatable question, but personally I do not see any reason why we should think of interest on securities in which you have your reserves invested as not being part of the general income, the gross income of the corporation, and being part of the fund that is

the property of the members. The members agree to leave it there for safety purposes. I think you will see that that comes pretty well under the mutual fire insurance companies of Ontario in connection with their reserves and the necessity for them. I am expressing my own personal opinion on that.

Q. Just one other question. We have been told that in some cases certain of these reserves are allocated.

A. Yes.

Q. To the individual members. A. Yes.

Q. Do you make any distinction between reserves which are allocated to the members and reserves which are just held in a general fund and not allocated to anybody?

A. There may be a distinction drawn from the point of view of the right of the individual to his equity in the property, in the whole undertaking. That raises the question as to whether or not it is desirable or humanely possible for any member of a cooperative to establish a mathematically accurate and calculable right to his part of the undertaking. A man may have certain investments in it and he may die. He cannot take anything with him when he dies. A man may go into a farmer's cooperative when he starts out for himself, say at the age of twenty or thirty years. Then at the age of sixty or seventy years he may retire. When he goes in, if it is a going concern, he has a certain title to an amount of capital, if you like, in the reserves that have been left in for purposes of continuity.

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When he departs he confers that same privilege or right or benefit upon the younger people who follow on. It is like the situation between one generation and another, that the parent gives something to the children and the children give something to their children. There is a continuity in the organization that you do not find in the individual life.

Q. Mr. Good, there is just one question I intended to ask, you when I was dealing with the allocated dividends. I think your reply was to the effect that you considered that as a loan? A. From the point of view of the member I think it definitely is a loan.

Q. A loan? A. Yes.

Q. Would it not be perhaps a little more correct to say that it was a forced loan, or an involuntary loan? He has no choice in the matter, has he? A. I am not sure about that, whether or not it is customary to allow them to withdraw. I think practically all loan capital is withdrawable under certain conditions.

Q. I am talking about what you say goes into the loan capital; that is, allocated dividends which the directors decide to hold and pay off through the revolving door plan, three or five or seven years later. I am suggesting that if it is a loan, it is a forced or involuntary loan, as far as the members go? A. I would not admit that without knowing the regulations under which it is repayable.

MR. VAUGHAN: It could not be a loan before it belonged to the member.

MR. PARKER: That is a matter of argument, I suppose.

Q. It must first, I suggest, be in his possession or at least under his control before it could be said to be a loan? A. Of course here is a practice that would

probably meet the case: paid out in cash and loaned back again in cash. That is a practice that has been and is being followed in some cooperatives.

Q. But I am not talking about that; I was talking about where it was not paid out; where a resolution was passed providing for so much, and where the directors say, "We are going to allocate it, and we advise you how much we have allocated to your account, on the understanding that you will get it five years from now, when the door revolves."

A. As I say, I cannot speak for all cooperatives; I do not know what their practice is.

Q. I am not suggesting that they all do it. I am merely asking if in those cases, where that is done, you would consider it a loan; that is all.

A. It might be if there were no opportunities, no right to get repayment during that period, say the five-year period --

Q. Now, you will remember that when you were here in February there was a gentleman doing what I am doing now, asking you some questions; I refer to a Mr. Grosch?

A. Yes.

Q. And he put some questions to you as to where we are heading, the ultimate objective, and that sort of thing. You remember that? A. I think I do.

Q. And I believe it was more or less understood that you preferred not to answer on those sections of your brief until now; it was understood that perhaps that matter would be brought to your attention, and you would express your views on it at this time, so I want to bring your attention to it now. May I put it in this way. If the cooperative business as we have seen it in operation, as evidenced by the people who have come before this commission -- I think

it is fair to say that this evidence discloses that in recent years particularly, and for a good many years, that type of business has been growing and expanding and increasing.

Is that a fair way to put it? A. In certain sections of our economy; yes.

Q. That is, in certain fields? A. Yes.

Q. And I take it that it is your view and the view of those on whose behalf you are here, that you expect it to continue to grow, or at least hope it will grow?

A. I would expect it would, yes. I do not know just how fast, or in what direction.

Q. Quite so; that is all in the future. But have the cooperatives something in view as to what their ultimate objective in that respect may be, whether they hope or expect that some day it will occupy say 50 per cent of the business field, or 60 per cent or 70 per cent, or what percentage? Is there any objective that you have in mind?

A. I would say that officially, as far as I am aware, the movement has never attempted to define anything in the way of ultimate objects. Cooperators, as individuals and as political and economic speculators may have their own views as to what ought to happen and what may possibly happen, but as far as I am concerned I certainly do not claim omniscience, and I am a bit careful about going very far in the way of predicting or blueprinting the future.

Q. It is not so much predicting what the future actually will be, but rather what cooperators hope it will be. Is it your desire, is it your hope, is it your goal that they shall keep on expanding until they occupy at least the greater portion of the field? A. No, I do not think there is any consensus of opinion on that point at all.

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Q. Have you any personal opinion on that, as their official head?

A. Well, my feeling is this, that inasmuch as the cooperative movement has arisen to meet human need, and in so far as I believe that of all forms of business, large scale business, it is the best thing that has yet developed in economic history--

Q. Would you say that if it grew to such proportions as to occupy practically all the entire field of business activity?

A. I would reserve judgment on that. That is a hypothetical question, if certain matters develop which, so far as I can see, except as a remote possibility are not likely to develop. I do not think I can venture an answer on that. But in so far as experience would justify some appraisal, it does seem to me that it is desirable from the point of view of social progress and individual betterment to have a very considerable growth of the cooperative movement in the future. I would not say that was necessarily along all lines, and I cannot, even for myself, make up my mind as to what particular directions would be most beneficial.

Q. May I put it in this way, then. You rather object, and I dare say quite properly so, to hypothetical questions, but it seems to me we have to keep our eye on the future in order to chart our course during the present. In case they should grow until they occupy, as I say, practically all the field, or the major portion of the field, would that not inevitably, in your judgment, lead to monopoly?

A. What do you mean by monopoly?

Q. I mean whatever you mean by it when you use it in your brief, when you are dealing with the monopolies into which private enterprise is liable to grow. I have the same meaning you attach to it.

A. No, I do not think so, and for this reason. It seems to me that the essential, or shall I say the kernel of monopoly is the elimination of competition, so as to control prices. If that is undertaken on behalf of a minor group in society, then you have the possibility of exploitation of the majority by the minority. If on the other hand you eliminate competition by general consent, say as we have done in our public utilities, the same exploitation is not possible; and in that case it would not seem that the objection which has been taken and may be reasonably taken to what we might call private monopoly, can be sustained.

Q. Just for a moment I want to read you what you said in answer to Mr. Grosch. I think it is proper that I should do this, because Mr. Grosch is not here, and some of his questions were more or less put aside for the time being. I think the witness ought to have the benefit of what was said at that time.

THE CHAIRMAN: To what page are you referring?

MR. PARKER: To page 2692 of the official transcript.

Q. Mr. Grosch had been asking some questions about the dairies, and some discussion took place, and at the last line of page 2692 Mr. Grosch said:

"I submit, my lord, that in cross-examination there is wide latitude.

"The Chairman: But remember the term 'cross examination' is as difficult to define as the word profit in another field.

"By Mr. Grosch:

"Q. I fully realize that, sir. I will put it this way. When a cooperative has expanded to such an extent, when it has developed as you suggested in the explanation you gave in the course, I believe, of certain comments

you made on your brief, when you used the Canadian Pacific Railway as an illustration of private enterprise, when it has expanded and developed on that scale, then you say that such a large cooperative is a public enterprise.

"A. No. What I said was that it could still be a private enterprise."

That is right, is it? A. Yes. Back of that is the distinction I made between public and private.

Q. That is true. I am only reading this to lead up to it.

"Q. You mean that if a cooperative became as large as the Canadian Pacific Railway it would then become a private enterprise? A. Not 'become'; it would remain what it had always been, a private enterprise -- private in contra-distinction to an enterprise that is state-owned or operated."

That is correct? A. Yes.

Q. "Q. And both being private enterprises, both being large like the Canadian Pacific Railway, and strong, like the Canadian Pacific Railway -- strong financially -- do you think then that the one should be taxed and the other be tax-exempt? A. I do not know that I am called on to express an opinion at this moment on the question of the propriety of taxing one enterprise more than another, but I rather gather that the problem posed to me is as to what is going to happen from the point of view of monopoly when the cooperative, so to speak, gets control of the whole field."

That is what I was asking about.

"But we are faced with the very same problem of monopolies under government auspices, and there has been a tremendous amount of discussion in Canada for

years over the supposed necessity for railway competition. There is a good deal to be said on all sides of that question, as to whether the wasteful effects of competition in certain fields are a more important consideration than certain other aspects of the situation. I think I may state frankly, Mr. Chairman, that in my opinion there is a vital distinction between private monopoly and public monopoly. We have a number of public monopolies and I suppose every citizen has asked himself the question, how will you prevent public monopoly from becoming inefficient?

"Q. And just as serious a question, how will you prevent private monopoly from becoming inefficient, either the C. P. R. or a cooperative, when it gets control and one is taxed while the other is not?"

May I stop there? Perhaps I had better read your answer:

"A. Whether or not some form of competition between different types of enterprise is a final and absolute necessity for securing efficiency is a question I am not prepared to answer at the moment. We shall have to work our way through that problem as best we can, because we face it now in connection with a good many of our large public enterprises, if you like. Take the railway situation."

That is just to bring it to your attention. A. Thank you, Mr. Parker.

Q. If you say you are not prepared to answer certain things which Mr. Grosch was putting to you at that moment, I was wondering if you were in a position to clarify that situation now. Perhaps I could help you by putting it in this way. If cooperatives grow and expand, is it not inevitable that they will become monopolies; good monopolies,

it may be, but monopolies nevertheless? A. Well, really your question poses two questions, as I see it.

Q. Then divide them up, will you? A. First, as to the likelihood of that happening, and second, as to the consequences if it did happen.

Q. Let us assume, for the sake of argument that it does happen. That is the one we are really interested in, because if it does not happen, the other would not apply.

A. I wonder if it would not be better to discuss the likelihood of it first.

Q. Very well; you discuss it in your way. A. Well, Mr. Chairman, this question implies somewhat that same as was involved in the question as to the ultimate objectives. As far as I can see at the moment, there is no likelihood of the cooperative movement, within the foreseeable future, absorbing any very large proportion of our national business. In the address by Mr. Thurman Arnold last fall, after referring to the very impressive growth of the American movement, he said this, and you will find it in his address: "Your business yet is not as big as that of the Atlantic and Pacific Tea Company."

I have sometimes been very much impressed, in looking over our Canadian cities and our American cities. I remember last fall, after Mr. Arnold made that statement, looking out of the train window over the buildings in Chicago, and saying to myself, "Well, what part of this has the cooperative movement got yet?" It is a negligible proportion of the business of Chicago. It is the same in Toronto, the same in Ottawa, the same everywhere you go. In certain other places in Canada, and in certain other lines, the cooperative movement has already developed and, what shall I say, included in its activities a great deal of the business

in those territories. But until such time, if it ever comes-- and certainly it is not in the foreseeable future -- that the cooperative movement includes a very large proportion of what we sometimes call private business, including in that the corporate business and individual business and so on, it seems to me that it will always be a sector of the community, a sector of our economic system, and it will always have to have working relations with private business, with individual business and corporate business.

BY THE CHAIRMAN:

Q. But, Mr. Good, if the system is desirable, you would not check it at any particular point, would you?

A. Absolutely not. I do not know how far, to what extent, or in what directions it may develop. My position is this, and I think it is the position of our movement generally. We believe the principle is absolutely sound: service at cost, people providing themselves with services at cost.

Q. That is a very well-known political doctrine: "Wait and see." A. Well, convinced that the principle is sound, the application of the principle in this sphere and that sphere, and the relation with other types of business, we cannot foresee. We can work ourselves along.

I was at one time inclined to be doctrinaire in this matter, but I have got over that. My views are largely pragmatic now on these questions. There are cooperators, however, who enjoy picturing to themselves some particular new social system, such as Edward Bellamy did in Looking Backward. Some of our cooperators, Doctor Warbasse, for instance, in his Cooperative Democracy, has envisaged his particular ideal, that is the shrinking of the functions of the political state and the undertaking of those by voluntary

group action; but British cooperators, so far as I have met them, do not take that view. There are all kinds of opinions and speculations as to that. Perhaps I am wandering.

BY MR. VAUGHAN:

Q. I wonder if that information is correct, about the cooperative business in the United States not being as large as that of the Atlantic and Pacific. Have you any idea what the cooperative business amounts to in the United States?

A. I could not say offhand, but we can get you some figures on that. It is split up there. We have not in the United States, as we have in Canada, even an approximation to national unification in the cooperative movement. There is a very large producer end over there, and then there is the city development, which is a sector by itself. Then there is the farm supply development.

Q. Do you know what the Atlantic and Pacific business is over there? A. I do not know the figures.

Q. I remember it used to be quoted at a billion dollars; it may be more now. It is something over a billion dollars?

A. Yes.

Q. In your brief you estimate the business in Canada alone at half a billion dollars? A. Yes.

Q. Then would it be possible that they could be doing less than twice the cooperative business, in the United States? A. A less proportion?

Q. If \$500,000,000 of business is done in Canada, and the statement which you quoted was that cooperative business in the United States was less than the business of the Atlantic and Pacific, and we will put the business of the Atlantic and Pacific at something over a billion dollars, that would mean the cooperative business in the United States would be only twice what it is in Canada, and surely

it must be at least ten times the business in Canada?

A. That looks rather foolish, Mr. Vaughan. I was staggered at the statement of Judge Arnold. I have not examined it, however. It may be that when he was making the comparison he was not including the marketing activities in the United States, which are very large. He was addressing the biennial congress of the Cooperative League of the United States. In that league there is much less than half of the cooperative movement of the United States. As I say, I cannot certify to or comment upon the figures that he gave.

Q. It does seem to be out of proportion.

A. They do. I admit they do seem to be out of proportion.

BY MR. PARKER:

Q. There is just one other statement in your previous evidence on which I should like to refresh your memory. I am reading now from page 2695 of the official transcript, a little further on from where I was reading previously. Mr. Grosch continued to ask you about these monopolies, and finally he got down to this. You brought in something about the public utilities, and Mr. Grosch sort of pulled away from that, and his question in the middle of 2695 was this:

"Q. What I am suggesting to you is that when a cooperative becomes as large as that, when it has passed beyond the primitive stages where it requires help, then the exemption clause should be dropped. A. I really find it difficult to understand what you have in mind in putting these questions."

You were perhaps sparring a little bit, were you? A. No, I do not think so.

Q. Then he went on:

"Q. I have in mind getting some help from you.

A. First you raised the question of monopoly and you wanted me to envisage what would be the situation if we had cooperative monopolies.

"Q. Yes. A. Well, I say it would be somewhat similar to the situation where we have state monopolies." Is that correct; will that stand?

A. It is, from the point of view of avoiding the exploitation of the majority of citizens by a little group.

Q. What do you mean by state monopolies? A. I mean a public utility.

Q. Then I continue quoting:

"Q. But that is public; let us say with private enterprise. A. Well, similar from the point of view of their being in a sense public monopolies. For instance, if you had an enterprise so large, operating under cooperative auspices, that it could be said to embrace the interests of all the people but not in any way under the auspices of government, it would be private in one sense, in that it would not be subject to government control, but it would be public in another sense when it had reached the stage where it included practically all the people. I am trying to find out what is in your mind.

"Q. When that happens, public interest and cooperative interests are one and the same and they should merge. Is that right? A. What do you mean by merge?

"Q. Well, you say they are the same; why have two doing the same job? A. You are raising a question which is more or less speculative.

"Q. And with your experience I should like to

have an answer from you, an answer from a practical man." This is what I was leading up to.

"A. Here is a question as to whether or not we should take the position that the fading state is our objective ideally. There are some people who hold that the constant growth of the cooperative movement will lead to a new type of common enterprise and that the state will fade into the background."

Let me stop there. Do you want to modify that at all, or shall I put it in this way. Is that the ideal to which the cooperative movement is looking forward? A. Certainly not.

Q. Where the state will fade and become merged in the cooperative? A. Certainly not. I have already answered that by citing Doctor Warbasse's personal opinion on this matter, and the general attitude of the movement.

Q. Then you go on:

"Take a municipal service such as the distribution of milk. Some people have argued that this ought to be undertaken under municipal auspices as a department of municipal government, and then we would call it public. If on the other hand you had in that territory a cooperative composed of milk consumers, including all the citizens of that community, you could have the same sort of system worked out under cooperative management, and one would be private in one sense, though it would have developed to such a point as to be properly called public inasmuch as all the citizens had been brought in, and they would be described as group consumers. And I might say, Mr. Grosch, that there are districts in

the world -- I know of one in the maritimes -- where practically everybody in the community is inside the cooperative, and they do process and distribute their own milk along with a lot of other things."

That was your answer. I skipped a little to come down here. A. You do not wish me to refer to the particular one?

Q. No; this is only to refresh your mind. Now I go on. Mr. Grosch said, after referring to the fact that he would have to leave:

"Q. Unfortunately I cannot be here. I was trying to get some information before leaving and I thought you could inform me. A. You are asking me a question with respect to certain matters of state policy.

I may have my own opinions and they may or may not be of value, but I do not think I should express myself on that particular point at this stage."

That point, on which I now ask you to express your opinion, if you care to do so, is whether or not you think it is a good thing for the cooperative movement to grow and grow, until it in turn is powerful enough so it can dictate to and control the state? A. The implication of those words, "dictate to and control the state" involves a contradiction in terms. If you can imagine the cooperative movement absorbing all the activities and including all the people of the state, the foundation of the state and of the movement would be the same; that is, all citizens. So you can hardly imagine all citizens, in one capacity or through one type of organization, neutralizing if you like, or conflicting with the interests of the same body of citizens functioning in a slightly different capacity.

Q. All right. Now I want to refer to one other question,

on page 2698, going back to the question of reserves.

This is the question Mr. Grosch put to you, which you said at that time you were not prepared to answer. I think in fairness to him and to you I should ask you now:

"Q. If we have a cooperative with large reserves, say a million and a half, and we have a joint stock company with a reserve of say a million, both in the same line of business, do you think that the cooperative with a million and a half should be exempt from taxation while the joint stock company with a million is taxed?"

That was the question. This was your answer:

"A. The question of the treatment of reserves has been raised and that is a matter which we shall deal with quite fully later on. I do not feel called upon at this moment to express a personal opinion on the question and inasmuch as I am not authorized to speak for the movement as a whole on the question I think it would be a mistake on my part."

May I repeat the question to you now, the very question that Mr. Grosch asked; and will you answer it now, or are you clothed with any more authority to answer it now than you were then? A. The matter will be dealt with in our recommendations this afternoon; but if you will just repeat the specific question Mr. Grosch asked, perhaps I can answer it.

Q. The question was:

"If we have a cooperative with large reserves, say a million and a half, and we have a joint stock company with a reserve of say a million, both in the same line of business, do you think that the cooperative with a million and a half should be exepct from taxation

while the joint stock company with a million is taxed?" You declined to answer that question before, on two grounds: first, because you did not think you were called upon to answer it and, second, because you did not have authority to speak for your group. What have you to say about it now?

A. I shall be prepared this afternoon to give our view as to what should be done in respect of cooperative organizations. With respect to what the government ought to do concerning non-cooperative organizations, we are not making any statement, and certainly I am not in a position to express myself on a matter of that sort. That is a matter, I think, between the non-cooperatives and the government.

MR. PARKER: Thank you; that is all.

THE CHAIRMAN: Do you wish to ask any questions, Mr. Francis?

MR. FRANCIS: I have no questions to ask.

BY MR. FILLMORE:

Q. Mr. Good, you are the president of the Cooperative Union of Canada? A. Yes.

Q. And you have a publication called the Canadian Cooperator? A. That is right.

Q. In that publication do you from time to time express the views of the Union, as you conceive them to be?

A. Well, if over my own signature, yes. No, pardon me; I would not say that. If I have, as I have occasionally, written articles published in the Canadian Cooperator, they do not necessarily embody the views of the Union. They are personal views.

Q. What is the object of the publication? Is it not the object of publishing this paper to further the movement in Canada? A. Have you a copy of the Cooperator there?

Q. Why do you publish the Cooperator?

A. Why?

Q. Yes? A. It is the official organ of the movement,
and has been since the year 1909; and the purposes are stated
in the Cooperator. I cannot quote them offhand, but if I had
a copy I could tell you.

Q. What are the qualifications for membership? First,
in view of your reorganization, what are the qualifications
for membership in a provincial organization? A. That

is determined by the provincial organization itself, on the
basis of certain general principles.

Q. And what is the basis of membership by a provincial
body in the union? A. In the national body?

Q. Yes? A. They are provincial units. The national
body is to be a federation of provincial units.

Q. Having the same aims and objectives? A. Yes.

Q. Would you give me briefly, now, the qualifications
for membership in the Union, as it now exists?

A. You mean as it has in the past?

Q. Yes. A. Well, Mr. Fillmore, I can answer that
question best by outlining the practice that has been follow-
ed since the beginning. Applications for affiliation are
received by the national executive, have been received by
the national executive. If those applications come in
without any by-laws or any particular information regarding
the applicant, then the applicant is required to furnish
information as to its set-up and practices and the whole
facts of the case. The matter is examined by the general
secretary, and if he considers that the organization is
eligible for admission, he admits it provisionally. Then
those applications are submitted to the executive, and there
there is an opportunity for discussion of the details and
a ratification or otherwise of the admission.

Q. So I take it, then, that all your present members have been investigated and found duly qualified? A. Yes.

Q. You asked for a copy of the Canadian Cooperator. At what page do you find the aims and objects of your movement? A. I am not sure that it is published in every issue; no, it is not in here, but it is in some of our other publications. It is about a paragraph. I do not see it in there.

Q. Perhaps if you find one during the noon-hour you would let us have it? A. We can certainly furnish that. I do not know that I have it with me, but it is available.

Q. I am referring now to the Canadian Cooperator of October, 1944. First, I find this on the front page:

"Devotion to cooperative philosophy. Philosophical and social aims of cooperators."

A. This is a quotation from somebody, is it?

Q. "Social Justice Review" by George Keen. You quote that on the front page. A. That was from an article that he wrote for the Social Justice Review. That is right; it is a quotation.

Q. And I take it that you approved of the ideas advanced; otherwise you would not have published it? A. No; Mr. Keen, as editor, has complete liberty of publishing what he wishes.

Q. Would you just try to apply your mind to the question? I will try to be as definite as I can, and you be as brief as you can, and we will save time. On the front page of this issue of the Canadian Cooperator you quote from an article by George Keen? A. No, I do not. I do not publish that magazine. Mr. Keen is the editor and publishes it.

Q. Who publishes the Canadian Cooperator?

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A. It is published by the Cooperative Union of Canada, but Mr. Keen is the editor and he has liberty of action in the selection of material.

Q. Where does Mr. Keen live? A. In Brantford.

Q. Ontario? A. Yes.

Q. The editor of the Canadian Cooperator quoted on the front page an extract from an article by George Keen?

A. Yes, from an article he wrote for an American publication in the midwest.

Q. I take it, then, that your editor at least approved of the ideas --

MR. PARKER: I do not think that is quite a proper question, to ask one man to state what was in the mind of somebody else. We must be fair to Mr. Good.

BY MR. FILLMORE:

Q. I will put it in this way, then. I find this on the front page of your edition of October, 1944, and I will read part of it:

"Devotion to cooperative philosophy - mutual helpfulness, and the substitution of cooperative for competitive habits of mind - are not only imperative for members of the cooperatives, but the gospel of cooperation should be carried to the general public. Thereby the way will be found ultimately to a commonwealth of cooperators not only on this continent but throughout the world."

Was any objection made by anybody to the publication of that extract on the front page of your paper? A. Not as far as I know.

Q. Now let us turn to page 11 of the same issue.

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BY THE CHAIRMAN:

Q. I think you told us, Mr. Good, that you were not wholly in accord with that idea; that was your personal opinion? A. Nobody knows --

Q. You did say you were not in accord with that? A. A cooperative commonwealth? I do not think I have used the phrase, but it is used in some phrases, but so far as I know nobody has defined it.

BY MR. PARKER:

Q. Are you in favour of it? Do you approve of that statement? That is the question. A. If we can agree on a definition of what a cooperative commonwealth means, I would try to answer the question, but I could not answer the thing otherwise.

BY MR. FILLMORE:

Q. Are you putting out propaganda saying that we should ultimately have a cooperative commonwealth, and you do not know what a cooperative commonwealth means?

A. Well, we know to this extent; that it is the working out of a principle, the principle of mutual self-help. As to just how and to what extent and in what directions that principle will be worked out in the future, what shape the society will take, I cannot say.

Q. So then you are advocating ~~something~~ on which your ideas are not crystallized? A. So far as actual operation-

Q. Just a moment; is that correct? Are you advocating something in respect of which your ideas are not crystallized?

A. I can answer that either Yes or No.

Q. Then let me call your attention to page 11 of this same issue. The heading is:

"Campaign Against Cooperatives.

"Proposed Taxation of Savings as Profits.

(by the Editor)."

A. Yes.

Q. Was any objection taken to that article by you or any member? A. Not so far as I know.

Q. I quote from the article:

"In conclusion, we may say that cooperators do not claim exemption. They should pay income tax on the same basis as others. If they trade with the general public as well as with their members, they do make a profit on such trade if it is held for the benefit of members."

Is that so? A. I am in agreement with that.

Q. All right. I quote further:

"If they trade with the general public as well as with their members they do make a profit on such trade if it is held for the benefit of members."

Now, keeping in mind a producers' cooperative which sells all, or at least 99 and 9/10ths per cent of its goods to the public for more than they cost, thereby realizing a surplus, is that trading with the general public? A. Not in the sense in which we understand it; no; I think that matter has been discussed already.

Q. Just a moment. If that does not constitute trading with the public, what does constitute trading with the public?

A. The phrase has reference to the relationship between the organization and its members, and not to relationships between the organization and some other part of the economic system. I think I dealt with that to a considerable extent before.

Q. Never mind; I just want you to consider the plain meaning of the words. First you say you do not claim exemption. Do you wish to change that and say that you do claim immunity,

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or to put it in another way, do you say you are immune from taxation? A. On member business.

Q. On member business? A. Yes.

Q. Only? A. That is right.

Q. And what is member business? A. Well, I suppose we shall have to have some definition of membership, of what constitutes membership.

Q. Do you publish articles the meaning of which is not apparent to the average reader? A. Well, I think the general meaning is apparent.

Q. All right. I put it to you that when you say "Trading with the public" you mean when the goods which are available for sale are offered and sold to the general public, as distinct from the members? A. I wonder if I could answer you by taking two different types. In the consumers' cooperative --

Q. I am just talking about the producers' cooperative now. Let us talk about that.

A. Certainly when we talk about member and non-member business in a producers' cooperative, we have in mind only the relationship between the cooperative and the people for whom it sells their product. We certainly have not in mind, and never have thought of having in mind, the people across the ocean, say, who buy our wheat.

THE CHAIRMAN: If it does not interrupt your train of thought, Mr. Fillmore, I think we should adjourn now.

The Commission adjourned until 2.15 p.m.

Ottawa,
Thursday, May 3, 1945.

The Commission resumed at 2.15 p.m.

The Examination of Mr. W. C. Good continued

MR. STEER: While we have been waiting I have been wondering whether I ought to give further details in regard to the form of organization and delegate voting in connection with the United Grain Growers. My friend Mr. Parker, in his examination of the witnesses, appears to attach considerable importance to that matter and perhaps if that is not clear I should clarify it.

THE CHAIRMAN: I think it has been made clear from the brief and from the evidence we have had. I would not think we need anything more.

MR. PARKER: I think in the case of some of the other cooperatives the variation in the number of members in the locals is not as widespread as it is in the United Grain Growers.

THE CHAIRMAN: I think that appears sufficiently clear.

MR. PARKER: I think that is fairly clear.

MR. STEER: I really think, from what Mr. Good said this morning, that I ought to cross-examine him on the whole theory of representative government.

MR. PARKER: That is your privilege, but not your duty.

MR. STEER: It may be my duty.

BY MR. FILLMORE:

Q. Did you find the issue of the Canadian Co-Operator in which the aims and objects of the Union are set out? A. I did not, Mr. Fillmore, but I have the

new constitution, the proposed constitution where the objects are set out.

Q. Have you that with you? A. I have not it with me today. It just occurred to me as I came across that it might be sufficient.

Q. Could you, in a word, state the aims and objects?

A. I prefer to get the proper papers. I could send somebody for it. They have it available in the Ottawa office.

Q. In the meantime let me call your attention to the November, 1944, issue of the Canadian Co-operator on page six, where there is an article entitled: "Co-operatives do not seek taxation privileges." It goes on:

"Cooperatives have never sought taxation privileges.

They have always been prepared to submit to taxation on the same basis as others."

Is that part correct? A. I think it is.

Q. The article goes on:

"For more than half a century taxation authorities in Britain, fortified by judgments of the courts, consistently took the view that the savings effected by cooperatives in trade relations with their members were not income or profit, but savings effected on their behalf, and that consequently they were not taxable."

THE CHAIRMAN: What is the name of the author?

MR. FILLMORE: It is on the editorial page.

BY MR. FILLMORE:

Q. That is an editorial, is it not? A. That would be by George Keen, our editor.

Q. Are you aware that cooperatives and joint stock companies are on the same basis in Great Britain?

A. I am not very well posted as to the exact legal

situation in Britain.

Q. You are not prepared to discuss that subject.

A. No, not as far as British practice goes.

Q. You would not be prepared to dissent from what Professor McDougall told us yesterday about the attitude of the taxing authorities in Great Britain? A. I was not here yesterday.

Q. Do you agree that the savings effected by co-operatives in trade relations with their members are not income or profit? A. I do.

Q. You agree that earnings effected by cooperatives in trade relations with their members are income or profit. A. They are in a different category.

Q. I think you stated this morning to my friend Mr. Parker that if a cooperative buys from its members at the current or market price and pays the same price to members and non-members alike and sells to the public at a profit, you would regard that as a non-cooperative activity. A. I do not think that was the exact situation put to me, Mr. Fillmore, by Mr. Parker.

Q. Supposing a company calling itself a cooperative buys from members and non-members alike and pays the current market price and sells the goods at --- A. You mean buys outright?

Q. Buys outright. A. Without any understanding as to any subsequent adjustment?

Q. Without any obligation whatsoever on the part of the cooperative to the member for any further part of the purchase price of the goods then being sold by it at an increased price. Would you call the net earnings which resulted a profit or income? A. If there was no

obligation, either expressed or implied, and the transaction was closed with the initial step that you have pictured, then I would say that they fall in the class of a non-cooperative.

Q. Let us go a step further. Supposing the directors, having absolute discretion in that regard, decide that they will pay out part of the profits to a patron, say on a bushel basis or on a pound basis; would that method of distribution of profits change the character of the earnings so that you would call it a patronage dividend and thereby have it immune from taxation?

A. The distribution of the net surplus which you refer to would, I think, imply the completion of the obligation.

Q. Let me put it to you this way, Mr. Good. The exact circumstance being that the directors, or the delegates, one or the other or both, have absolute discretion; they can pay a patronage dividend or not, just as they see fit. The member is in no position to demand payment of the whole or any part of that profit. Do you think the designation of that distribution among the members changes the profit into something of a different character which is immune from taxation? A. You are putting a more or less hypothetical case, Mr. Fillmore.

Q. As a matter of fact, I am giving you an actual circumstance. A. The phrase you use, "absolute discretion" -- it seems to me that no board of directors, no group of delegates has absolute discretion any more than the elected representatives in any democratic body have absolute discretion. Those representatives may have certain powers, but those powers are limited.

Q. I am referring to the case of the so-called co-operative in which the payment or non-payment of patronage dividends in any year is in the absolute discretion of the directors or delegates. A. That is usually the case with all cooperatives; the directors have considerable powers, subject of course to review at the annual meeting.

Q. I am not asking you what they usually have, I am asking you whether or not you consider you can change a profit into a patronage dividend which is immune from taxation by the mere act of distribution among the members. A. I think the act of distribution and all that it signifies makes a very vital difference.

Q. Your view is that this company, carrying on under the name of a cooperative, may carry on business in exactly the same manner as its competitor. A. Wait now, exactly the same way? With some similarity.

Q. I am talking about the business operations, do not make any mistake about that. Their business methods and operations are exactly the same. A. Up to a certain point.

Q. Up to the end of the transaction. Leaving aside their relations with their members and shareholders, we will say the business methods and operations are exactly the same. They each earn a profit. Now, if one company pays that out to its shareholders, you say that that is not immune from taxation, but if the other company distributes that profit among its members, you say that such distribution is a deductible expense. A. Yes, the two cases are not the same.

Q. They are not? A. In my judgment.

Q. The only difference being in the method of distribution. A. And certain obligations or understandings that lie behind that.

Q. Just a minute, let us assume that there is no obligation on the directors or delegates to make that distribution. A. We could not assume that with a cooperative.

Q. You would not assume that?

MR. PARKER: He said that you could not with a cooperative.

BY MR. FILLMORE:

Q. Providing there is such a situation, where the directors or delegates have the absolute right to pay or withhold a patronage dividend, then it is not a cooperative; is that your view? A. Every board of directors in any organization that I know of, cooperative or non-cooperative, have certain discretionary powers and within those discretionary powers, or as one of them, frequently lodges this power to distribute or not to distribute, according to their judgment.

Q. Let us agree on that, that the directors of a joint stock company or of a cooperative have the power to decide whether they will pay or not pay a dividend. Now, if one company, if the joint stock company pays it out, the profit still remains taxable, but if the company calling itself a cooperative distributes that among its members on a bushel basis, then you say that the amount of that distribution should be allowed as a deductible expense. A. I think so. Let me put it this way ---

Q. Never mind.

BY THE CHAIRMAN:

Q. Do you put that on the ground of intention, Mr. Good? Is that the distinction you make? A. The distinction in my judgment lies in the nature or the difference between the two enterprises. These enterprises are certainly similar in many respects; in other respects they are dissimilar.

Q. They are dissimilar in intent. A. Yes, and in their general practice in the distribution of earnings.

BY MR. FILLMORE:

Q. Does not it seem to you then that the one concern carrying on business in the same manner as the other company and being, as you say, immune from taxation, enjoys a great advantage over the joint stock company which is subject to taxation? A. Whether or not the non-cooperatives at the present time have a grievance against the government in this matter of income tax, I am not prepared to express an opinion.

Q. As a matter of fact I did not ask you that; I just tried to point out to you, or rather to ask you whether or not it is not a fact that the cooperative which is immune from taxation enjoys an advantage over its competitor, which is subject to taxation. A. You mean with the existing situation in Canada?

Q. Yes. A. That is a question on which a good deal might be said on both sides. I cannot at the moment express an opinion as to whether there is a disability under which they are labouring. So far as we are concerned, speaking for cooperatives, we have certain rights in the matter. We consider we have certain rights and we believe that those rights should be protected.

Q. And if the private enterprise is being hurt you

say that that is a matter they should take up with the government. A. Yes.

Q. The private companies have not made any complaint against the cooperatives except in the matter of exemption from taxation. A. I do not know.

Q. Do you know of any other complaint which private enterprise has made against cooperative enterprise except in the matter of discrimination in taxation? A. I do not know just what you mean by "complaint".

Q. I take it that if you do not know what I mean, then you do not know of any complaint. Mr. Good, consider for a moment the question of the producers' cooperative which markets grain. Do you think it in order for such a cooperative to own and operate country elevators?

A. Surely, yes.

Q. Going along with that, do you think it would be wrong for them to own a bank, or to have an interest in a bank, along with other cooperatives, from which they had to borrow money to finance the movement of the crop?

A. No, I do not think so.

Q. And would there be anything wrong with the cooperative owning the transportation facilities in order to move the crop? A. I do not think so because the British movement owns quite a lot of transportation facilities. I suppose a truck would be a transportation facility.

Q. It would be quite in order for the cooperative to own the terminal elevators to which the grain was moved. A. Certainly.

Q. And would it be in order for them to own the boats on the lakes in which the grain would move from the

terminal elevator to Buffalo or to other points in the east? A. From the point of view of theory, yes; I do not know of any wrong about it.

Q. Would it be quite in order for the cooperative to own the boats on which the grain was shipped overseas to different parts of the world? A. I would think it would be quite proper.

Q. And then speaking locally, would it be all right for the cooperative to utilize such wheat as they did not export, say by turning it into flour and glucose and starch? A. Surely, yes.

Q. There would be nothing wrong in that? A. Provided, of course, that the whole enterprise and its interrelations were on a cooperative basis; that is the general proviso.

Q. Would there be any wrong in establishing bread plants to turn the flour into bread? A. No, not from the cooperative point of view; there may be objections to it from a different point of view.

Q. Would it be all right to have retail stores in which the bread would be sold? A. Well, it would be theoretically justifiable, but practically inexpedient.

Q. But not inconsistent with the cooperative idea? A. No, not from the point of view of cooperative theory.

Q. Would it be all right, say, to have the barley utilized? A. Barley, did you say?

Q. Yes. I am talking about grain producers' cooperatives. A. Yes.

Q. Could you utilize the barley just as well as the wheat? A. Of course.

Q. And turn it into any form of commercial value

for which it is suited? A. In theory there are no limits to the activities of cooperatives, but there are questions that are very much related to them.

Q. The only question in your mind is whether it is good sound business. A. I wonder if I could answer you in this way. There are two general types of cooperatives, the producer type and the consumer type. Then it is a question as to where the one type should meet the other type, and that will depend upon conditions.

Q. I understand ---- A. Each of them may be a cooperative, but it may not be advisable for the consumer type to go to the source of production, to the wheat fields of the west, although the British consumers have almost done so in the past. It may not be advisable for the producers to go to the ultimate consumer, say in another country. Those are not ethical questions or questions of cooperative theory, they are all questions of business expediency.

Q. The point is that you have to draw the line some place between the activities of the producer and consumer cooperatives. A. Well, within our movement a great deal of thought has been given to that matter.

Q. Just for the time being let us confine it to that. You say there is a line between the activities of the two types of cooperatives. A. That line is drawn with a view to the circumstances, not with a view to the cooperative organization or theory or the principles of business circumstances.

Q. We will deal with that in a moment.

BY MR. NADEAU:

Q. While we are on this subject may I put a question?

Do you object to cooperatives holding the controlling stock in an ordinary joint stock company as a matter of theory or principle, and operating it as an ordinary business concern? A. That is a very difficult question to answer, Mr. Nadeau. I know some American cooperatives have purchased the controlling interest in private banks over there. I would not be prepared offhand to express an opinion on that, but it is a rather new development. I think I would want to think about that a little more before I committed myself definitely.

Q. If I am not mistaken, we had that evidence before the Commission. A. I do not recall it at the moment, but it may be there.

Q. You do not want to express any opinion about it. A. Frankly, I find it a little hard to make up my mind on that. You have a sort of hybrid there, and whether or not in the case of a cooperative having the controlling interest, say in a bank, having 55 per cent of the stock and thereby having a controlling interest, you could say in one sense it was completely under the control of the cooperative. On the other hand, the other 45 per cent would have certain rights, certainly certain moral rights if not legal rights. I think it is a difficult question to answer offhand.

Q. But if it is in the same line of business? For instance, if a pool buys the controlling shares of a line elevator company, would you object to that as a matter of principle? A. I do not know. I hesitate to express an opinion on that. It may be that some of the pool officials would be more competent to express an opinion on it. I certainly would not like to encourage

that sort of thing.

BY THE CHAIRMAN:

Q. You would not think it expedient? I think that was the word you used a little while ago. A. I used the word "expedient" from a little different angle, from the angle of business efficiency. Here is a case where you are bringing together in one institution two different types of shareholders, the cooperative group of shareholders and a number of individual people. Those people have invested on a share investing basis. I do not think it could be a permanent set-up; it must be more or less of a grouping.

BY MR. ARNASON:

Q. You would not recommend it as a practice.

A. No, I certainly would not.

BY MR. FILLMORE:

Q. Supposing there is an ordinary joint stock company which owns country elevators, we will say, and is carrying on the elevator business. Supposing that company passes a by-law and makes it legal. Supposing it says:

"Be it resolved, and it is hereby resolved, that the company may out of its profits or surplus distribute earnings to the members of another company, a co-operative."

A. You say they would distribute their earnings to the members of a cooperative?

Q. Yes. A. How could they?

Q. Well, let us say that the cooperative owns shares in the joint stock company. A. You mean all the shares?

Q. Yes, all the shares; it has a controlling interest. The joint stock company carries on business and

makes money and it passes a by-law and says:

"Be it resolved and it is hereby resolved that we shall distribute the profits or surplus which we make among the members of this cooperative."

A. I am trying to get your meaning. Have you in mind an insurance company?

Q. No, I have in mind an elevator company which is the owner of a large number of country elevators.

A. That is an ordinary joint stock company?

Q. Yes sir, and it passes a by-law and says:

"Be it resolved and it is hereby resolved that we shall in the discretion of the directors distribute our surplus or profits."

A. On a patronage basis?

Q. On a patronage basis among the members of this other company, which is a cooperative company. A. You mean to say that those members are not patrons of the elevator company, they do not ship wheat to it?

Q. Oh, yes. We will start over again. They are going to distribute the surplus among those people on a bushelage basis. A. But that surplus must arise out of their own business, must it not?

Q. Maybe I had better just let that go in the meantime. A. I am not trying ---

Q. It seems a little complicated to you. A. I am not trying to avoid the question or evade it in any way. I am anxious to answer the question, but I cannot picture the situation where a joint stock company, an elevator company, determines to distribute its surplus in the form of patronage dividends to people who are patronising some pool elevator.

Q. Oh no, they patronise the elevator, they are members of the pool which owns the shares. A. I understand. They are members of the pool who for some reason or other have not been able to ship to the pool and ship to this private company?

Q. We will let it go. A. I am not trying to dodge the question in any way.

Q. Our time is getting short and I will not press that any further. Do you say that a dairy cooperative should not manufacture its milk into butter? A. No.

Q. Or into dried milk? A. I do not.

Q. And so on, right down the line until you get to the place where you might conflict with the consumer cooperative. There is no reason they should not go ahead the same as the grain cooperative, is there? A. There is no wrong residing in the technical nature of the business, but there may be a reason which would come into being or would be influential in deciding the matter after a certain point had been reached. They would be dealing in the main with outsiders. That is a question about which a lot can be said on all sides.

Q. Do you say that if a grain cooperative or a dairy cooperative should develop along those lines and become large and occupy a large part of their respective fields, they should always continue immune from taxation?

A. So far as certain of their transactions were concerned, yes; with regard to other possible transactions, I would hesitate to express an opinion.

Q. With regard to what? A. Other possible transactions.

Q. Then within the limits which are set out, as

regards, say, grain producers' cooperative, if it extends its activities in all these ways and occupies quite a percentage of that field of business in Canada, should it remain immune from taxation all the way along the line?

A. I wonder, Mr. Fillmore, if I could put the situation in this way. I think it might clarify the understanding between us. Supposing in the processing of a natural product you finally arrive at the point where you are selling to the general public. Then there is a question as to whether or not that particular business, those transactions should be, what shall I say, member-wide? If, however, there is a relationship between the consumer cooperative and the producer end of it, if they are tied together, the question does not arise.

Q. Let us assume that there is no connection between the two, that the producer cooperative is selling to the public all along the line, always selling to the public, always making money. Do you say that the surplus or earnings which arise should always remain immune from taxation? A. Earnings arising from what?

Q. The sale of goods to the public. A. Well, now, I have discussed this matter with some other cooperatives and I would say that on that question as yet there is no complete unanimity of opinion. There is a debatable area there.

Q. Personally you would not be prepared to say that they should be immune from taxation. A. No, not at the moment. It would take a good deal of other considerations.

Q. According to your magazine, you do not seek taxation privileges, do you? A. No.

Q. So that you are not saying at the moment that profits arising from the sale of goods to the public should be immune from taxation. A. I wonder if I could put it this way. Take the individual producer of milk. That individual may, as they used to do, churn the butter on his farm. It seems to me perfectly legitimate, if the situation has been changed, that there should be a sale of butter instead of a sale of whole milk. You can go further than that, you can feed your skim milk to hogs and sell your hogs and so on. It is very difficult, if not impossible, to draw any line so far as the technical side is concerned.

But in regard to the distribution of earnings, there is a question that arises. Let me give you another example. Take the same dairy cooperative. In our cities there has been a feeling that the consumers of milk are equally interested in the enterprise, and there are some cooperatives in Canada that are jointly owned by the consumers and producers. They split the distribution on some agreed basis. I think you get my point.

Q. You are talking about the case where the consumer cooperative and producer cooperative get together.

A. They get together inside one corporation.

Q. You are not talking of the same thing I was talking about. Let us pass on to another subject. Are you against the profit motive or against the profit system?

A. The profit motive as conceived by many small enterprisers is no more than a desire to get a fair wage for his labour.

Q. Are you against the profit system? A. I think the cooperative system, the non-profit system has proved

in the long run that it has certain advantages in the matter of operating to certain human motives. I would say that in the long run it is the better system.

Q. I show you the July, 1944 issue of The Canadian Co-operator. On the front page there is an article by David E. Sonquist, entitled "Co-operation--a philosophical interpretation." The last sentence reads:

"When will we wake up to the fact that we are not patrons but victims of the profit system?"

Was that published in your magazine? A. Obviously, yes.

Q. Did you get any objections from any of your members about publishing such a statement? A. Not as far as I know.

Q. Does the cooperative substitute the service motive for the profit motive; is that what you think about it? A. That is a rather clumsy way of expressing it, Mr. Fillmore, if you will pardon me for saying so. I do not say that in any offensive way.

Q. Let me refer now to the April, 1944 issue of The Canadian Co-operator, page six, where it states:

"Many people who are not politicians and, indeed, some beneficiaries of private enterprise, have condemned anti-social results accruing from the operations of private enterprise in the past. Cooperators must also do so if for no other reason than that the movement offers an alternative in the public interest. It substitutes the service motive for the profit motive."

A. Yes.

Q. Is that correct? A. I do not like those terms,

but I am not responsible for the language used there. Personally I do not like those particular terms because they do not seem to be clear. However, it is quite obvious to everyone who has any knowledge of current history that fearful injustice has resulted from the pursuit of gain by those organizations which have managed to get fairly complete power in their hands.

Q. I should like to refer you to some of the aims and objects of your union. A. What have you there, a copy of the new proposed rules for the national union?

Q. Let me refer you to the January, 1944 issue of The Canadian Co-operator where on page seven reference is made to the cooperative commonwealth. A. Is that an editorial?

Q. It is an editorial viewpoint. A. Yes.

Q. Is your union in favour of a cooperative commonwealth? A. I could not answer that without having some understanding of the definition of the term "cooperative commonwealth".

Q. We will give it to you right now:

"Now what is a cooperative commonwealth? The meaning given to the term by cooperators is that it will be a commonwealth of cooperators. It will involve eliminating the competitive habit from the minds of men and replacing it with the cooperative habit."

And then further down:

"A commonwealth of cooperators will involve the decay and the ultimate disappearance of the political party system."

And again:

"There is no blueprint of the cooperative commonwealth. A commonwealth of cooperators would approach

our economic, social and cultural life from the viewpoint of mutual interest and welfare. Policies as to economic practice would be varied and changed from time to time as the result of growing and accumulated experience.....There cannot be a cooperative commonwealth without cooperators.

Cooperators are working in the general direction of a cooperative commonwealth--here and the world over."

Is that correct? A. That is the definition there employed. I have not stated I am in agreement. That is stated there as the attitude of the people rather than the outward manifestation in certain economic institutions.

Q. Let us not talk about something else. This is your official organ and this is the editorial page.

A. Yes.

Q. And it says:

"Cooperators are working in the general direction of a cooperative commonwealth--here and the world over."

Is that correct or not? A. As there defined.

Q. Yes, as there defined. A. I would say yes, with the substitution of the attitudes which the cooperative movement implies.

Q. Is it not one of your objects, as set out in the proposed rules of the Co-operative Union of Canada, under section 2 (f):

"To provide propaganda and educational facilities on a national scale with the view to the evolution of a cooperative Canada".

A. Yes, whatever that means, "cooperative Canada."

That will have to be taken in view of the spiritual content rather than the structure.

Q. You are not repudiating your new rules already, before they have gone into effect? A. No, but they should be interpreted sensibly.

Q. Are not they plain? Can you interpret that rule in more than one way? A. It is quite possible. What do you mean by a cooperative Canada?

Q. We will take your own definition. A. I do not say it is my definition.

Q. We will take the definition set out in your official organ. Is that good enough for you? A. It is Mr. Keen's personal views.

Q. Has that view as expressed in the January, 1944 issue been repudiated by anyone in your organization? A. Not so far as I know.

BY THE CHAIRMAN:

Q. Is that the propaganda which has been referred to? A. Yes.

BY MR. FILLMORE:

Q. In connection with the propaganda, do you advise the method of procedure which is set out on page eight of this same issue as follows:

"Cooperative publicity should follow the method of the yeast cells, Those little cells do not make any noise but they really get the job done."

A. Where is that? That is a quotation from The Nebraska Union Farmer, it is not Mr. Keen's.

Q. Why did he quote it in this particular issue? A. I do not know.

Q. It seems peculiar. Was he just clipping away

at some other papers and this one went in accidentally?

A. I suppose the idea is that there is a leaven of ideas, of new ideas working quietly in the people's minds.

Q. Does not that quiet working from within by cells suggests some other type of propaganda that has been going around this country for the past few years? A. Not so far as we are concerned, no. There is nothing of the sort. There is no sort of subterranean propaganda on our part and never has been.

Q. You are quite frank in saying what your ambitions are, but you also want to work quietly while the change is going on. A. I beg your pardon, we have not announced that. That is a quotation from The Nebraska Union Farmer for which nobody here has any responsibility. In fact I do not know just what the editor of the Nebraska Union Farmer had in mind when he said that. I do not recall reading it.

Q. Did you go to your editor, Mr. Keen, and say, "Good heavens, Mr. Keen, what are you putting such stuff in our paper for?" A. No, I did not. I do not recall having read that, as a matter of fact.

Q. Do you know a man named James Peter Warbasse? A. Yes.

Q. Who is he? A. He is president emeritus of the Co-operative League of the United States of America.

Q. Have you any respect for his views? A. I have, even although I disagree with them in many respects.

Q. I am instructed that the following is a quotation from one of his articles:

"The ultimate destiny of the consumers' cooperative

movement is to obtain or to produce in factory, shop, mine, sea, air and land, all that the consumers require. As cooperation grows, the need and possibility of the existence of profit business and of the political state decline.....The cooperative movement is tending toward a cooperative democracy as a substitute for the political state....Cooperation already has in operation the machinery which is capable of being a substitute for the political machinery of the state."

A. That is what I referred to this morning. Dr. Warbasse has somewhat peculiar views on the trading state. I think that is why they are not entertained by any very considerable section of cooperators.

Q. You agree, I take it, with a considerable part of that statement, Mr. Good, or at least your movement does or your editor does, does he not? A. In part, in respect to the activities of the organized consumers.

Q. We will just see where you draw the line. I refer now to the May, 1944 issue of the Canadian co-operator, pages ten and eleven. Let us see what you think of Dr. Warbasse's views. This is an article by R. A. Palmer, J.P., General Secretary, British Co-operative Union, Limited. You referred to him this morning.

A. This is all a quotation from Mr. Palmer.

Q. Did not you refer to Mr. Palmer this morning?

A. I did.

Q. Is he an authority on cooperative movements?

A. He is a very distinguished British cooperator.

Q. You have confidence in the soundness of his judgment and the integrity of his views. A. I cer-

tainly have in the integrity of his views. As to his judgment, I would have to reserve judgment.

Q. I want to read from pages ten and eleven, as follows:

"The difference between the outlook of Dr. Warbasse and the British cooperators is that, whilst Dr. Warbasse thinks all types of production, distribution and services essential to the life of the people can best be owned and controlled by voluntary cooperative organizations of various types, British cooperators do not think so. We hold the view that 'in relation to the distributive trades the policy of development by cooperative societies offers the most practical and satisfactory way of extending collectivist principles in meeting the needs of the community.' We also think that some types of distribution and production and certain services can best be undertaken by other types of non-profit making and publicly controlled organizations, and that it would be utterly foolish and unfair to large sections of the community to leave them at the mercy of private profit-seeking organizations in the lengthy period that must ensue between the present day and the day when voluntary cooperative organizations of all types could be developed to the stage when all trade and business, the land and banking, etc., would come under voluntary cooperative control."

Do you agree with his judgment? A. Well, I am in agreement with his criticism of Dr. Warbasse' prognostications, but in respect to any blueprint, if you may

think it is employed there, I do not know. I am very reluctant about making any predictions.

Q. You are not repudiating what has been published as a leading article in your magazine. A. How can any cooperator take the attitude of repudiating the views of any man who has the prestige of Mr. Palmer.

Q. Is not this published with a view of getting your readers to agree. A. To think about it, to give it serious consideration, yes.

Q. By way of recommendation. A. Not necessarily.

Q. You do not publish that kind of thing to get the public to disagree with those views, do you? A. Every journal of opinion is more or less a free forum.

Q. You are consistently publishing that sort of thing month after month, and I can show it to you in your magazine. If you can show me anything in any issue to the contrary I will be glad to see it.

MR. PARKER: I rather think that last statement of Mr. Fillmore's is a statement of his own rather than a submission of evidence.

MR. FILLMORE: Quite right.

BY MR. FILLMORE:

Q. Let us look at your second brief here, Mr. Good, where it states on page eight:

"But cooperators have followed a different path.

They are building up a new economic system in the very midst of the old, and partaking more or less of the imperfections of the old."

A. That has not been read as yet.

Q. I am just calling your attention to the fact that

your own views or the views of your organization are consistent with what you have published in your magazine.

A. I just wanted to see the reference there.

Q. It is on page eight:

"But cooperators have followed a different path.

They are building up a new economic system in the very midst of the old, and partaking more or less of the imperfections of the old. They propose to take over gradually; and this they are doing. They have often been accused of committing the same sins that they condemn in other forms of business; and there is a modicum of truth in this charge. But their objective is different: their faces are turned to the future; and if, meanwhile, they will get along as best they can with people as they are and with business as it is, such conduct is no final proof that they are no different from others. Christians must live in the world (unless they become hermits) and share the world's sin; but they need not be basically 'of the world'.

A. You should read the quotation in its proper context and contrast it with what I had in mind. I was referring to the monastic type of economic change, and I think you will find that in the brief. Some people have wanted to start a new economic system and they have gone out and tried to start colonies, and they wanted them to be simon pure.

There is a long record of these various colonies of the monastic pattern. The general technique of the cooperative movement has not been of that sort at all; it has been to get along along within the system as it is, and to be a force making for gradual change. That was the point there, in making that contrast, the contrast with the monastic type of economic reform.

Q. And to take over gradually? A. Yes.

Q. And you have not imposed any limits, have you?

A. Certainly I have not imposed any limits. I do not know where or how or to what extent or what fields, as I said this morning.

Q. I see that in your issue of August 8, 1944, you have an article entitled, "United States Socialists Go Cooperative." Your comment at the end is --

A. Do not say "your comment." It is the comment.

Q. The comment at the end is:

"If all business were transacted cooperatively, price ceilings would be unnecessary. Rising prices would serve no purpose. A man cannot make a profit out of himself."

How do you think that word "profit" should be spelled?

It is spelled "p-r-o-f-i-t" here, but perhaps that is a misprint; maybe you would like to spell it in some other way? A. I think that word in that connection is used in a sense which applies to the general stock company, the average general stock company; it is not in the sense in which we conceive it as cooperatives.

Q. Let me refer to your issue of December, 1943, at page 14. Here are some extracts:

"There should be cohesion and coordination of activity between co-ops throughout Canada, and that

can only be expected by intensive provincial propaganda. Every effort should be made as the movement grows to correlate producers' and consumers' cooperatives, to the end that far greater economies may be effected for the advantage of each." Then in your issue of January, 1944, at page 7 I read this:

"There is no blueprint of the cooperative commonwealth. Policies as to economic practice would be varied and changed from time to time as the result of growing and accumulated experience."

THE CHAIRMAN: I do not know how far you are going to press this, Mr. Fillmore, but so far as I am concerned-- I do not know how my colleagues feel -- I think that is quite enough on that branch of the case.

MR. FILLMORE: Then I will just ask one or two questions more, my lord.

Q. I take it that you have envisioned that consumer and producer cooperatives may come to a point of conflict of interest? A. No, not conflict of interest; to a point of maximum mutual advantage.

Q. But at some point the two have got to get together, have they not? They have to meet on common ground and come to an agreement. Is that your view?

A. Let me put it in this way. There is a large basis of agreement, fundamental points of agreement, between the producer type of cooperative and the consumer type. There are also certain marked distinctions. In the matter of an arrangement, a business arrangement between the producer cooperative on the one hand and the consumer cooperative on the other, the point where these should meet one another in order to secure the maximum advantage to each is, as I said some time ago, to be determined only

by the conditions existing at the time and place. I can give you examples, if you wish.

Q. Just a moment. That is all beautifully vague, but let us boil it down.

A. Let me give you an example, to make it concrete. In the city of Brantford there is a dairy cooperative, a producers' dairy cooperative composed of a number of milk producers in the neighbourhood who have been operating, I suppose, for nearly twenty-five years. They collect and process the milk, bottle it and distribute it to the consumers of milk in the city of Brantford. If it were the manufacture of butter, and the market was abroad, it would be a very inexpedient thing from a practical point of view for the producers' cooperative to undertake the retail distribution of the butter or milk. In the city of Brantford, because the market is right at hand, the thing is feasible; but in the case of butter, supposing you take the Saskatchewan Cooperative creameries, manufacturing butter for sale in the distant market. There the situation would be entirely different, and the sensible thing to do is to meet the British consumers' organization at some point.

Q. Is it not obvious that the producer and the consumer cooperatives have to meet on some common ground at some time?

A. They should, certainly. There is no reason why they should conflict.

Q. And there is every reason why they should not conflict, is there not?

A. Yes, I think so.

Q. And as they grow, and as they take over the field of business, do you not get to the point where they have to come to some agreement as to prices which the consumer will pay to the producer?

A. Certainly. Yes.

Q. And you get to the point where these prices would have

to be fixed for more than one commodity, assuming you had a number of producer cooperatives and a number of consumers?

A. The prices would be determined as the result of negotiations.

Q. They would have to negotiate. The different producer cooperatives would have to negotiate with the appropriate consumer cooperatives, and they would have to agree on prices? A. Yes, sir.

Q. If you had, outside of the cooperative field, competitors who did not agree to those prices, that might upset the arrangement, might it not?

A. It might affect the arrangement, certainly.

Q. So in order to make that effective you would have to have cooperative producers occupying the entire field, and the cooperative consumers occupying the rest of the field, and then they could effectively come to an agreement as to prices? A. Well, Mr. Fillmore, you envisage a situation which would never happen in practice. If you had an extensive development of the cooperative movement, the same people would be in both types. I can give you cases in point.

Q. All right; we will say that the same people would be in both types. Then they would have to occupy the entire field, otherwise a competitor on the side might fix different prices and take business away from the cooperatives. Can you not see that? A. Certainly anything in the way of potential competition from some outside source would be a definite factor in the determination of price. Quite so.

Q. But can you not see that you are going to get to the stage where you have to fix prices throughout the country?

A. You mean by government edict?

Q. No; by cooperative control? A. Well, all kinds

of prices now are determined by negotiation between different groups. I do not think it would be any different from what is going on now.

Q. Let us put it in this way. Assuming that the cooperative movement grows, as your publication assumes and hopes it will grow --- let us assume that, no matter if it takes ten years or fifty years. Let us assume it is the most efficient way of carrying on, and that it will get to the point where, we will say, one cooperative markets all the grain, another markets all the dairy products, and so on. In those fields, have they not got to come to an agreement as to prices, with the consumer cooperatives?

A. I presume they would naturally; that is, if the wheat-selling business of the west was consolidated into one organization, and they sold a large part of their wheat overseas to the British cooperative society, or the British wholesale society.

Q. Let us talk about domestic consumption for a moment. When you get to the point where you have to agree as to the price of the commodity, are you not then and there faced with a planned economy? A. With what? What on earth do you mean by a planned economy?

Q. You do not know? A. Well, it is just about as vague and nebulous as the cooperative commonwealth. Some people may mean one thing, and some another.

THE CHAIRMAN: Do you wish to ask any questions, Mr. Francis?

MR. FRANCIS: I have no questions, because I suggest that this is a great deal of argument, and can be better dealt with in argument than in questioning.

BY MR. PARKER:

Q. I should like to ask two or three questions which

I omitted this morning. I had in mind that they might come better in relation to the recommendations, but in view of what has taken place it might be more appropriate to ask them here. I shall be very brief.

Q. Mr. Fillmore has placed before you, Mr. Good, certain articles appearing in your magazine? A. Yes.

Q. I take it that your magazine, meaning the Union's magazine, is, like a good many other publications, expressing the views of a great many different contributors?

A. Certainly.

Q. And that your columns are reasonably open to anybody, to express their views on this movement? A. Certainly; true.

Q. Not necessarily confined to those who support the Union's views at all?

MR. FILLMORE: I only read from the editorial page.

BY MR. PARKER:

Q. All right. Do the editorials necessarily reflect the views of your union, or do they keep control over the editor to that extent, that he must express nothing but the views of the union? A. No, I would not say there has been any control exercised. Occasionally letters will be sent disagreeing with these views expressed in the editorials, and that gives rise to discussion; but there is no sort of restraint imposed upon the editor.

Q. However, quite apart from the literature which may be published throughout the country, certain people have appeared before this commission, as you know very well?

A. Yes.

Q. Who have expressed a great variety of views. I believe you have personally been present at a considerable

1. 關於「臺灣省教育廳」之組織，應由該廳擬具「臺灣省教育廳組織規程」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

2. 關於「臺灣省教育廳」之業務，應由該廳擬具「臺灣省教育廳業務計畫」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

3. 關於「臺灣省教育廳」之經費，應由該廳擬具「臺灣省教育廳經費預算」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

4. 關於「臺灣省教育廳」之人事，應由該廳擬具「臺灣省教育廳人事計畫」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

5. 關於「臺灣省教育廳」之設備，應由該廳擬具「臺灣省教育廳設備計畫」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

6. 關於「臺灣省教育廳」之其他事項，應由該廳擬具「臺灣省教育廳其他事項計畫」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

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10. 關於「臺灣省教育廳」之其他事項，應由該廳擬具「臺灣省教育廳其他事項計畫」，呈請行政院核定，並由該廳分令各縣（市）教育廳（局）遵照辦理。

number of the hearings? A. Between Winnipeg and Montreal.

Q. Among other views which you heard expressed were those, I think, of a gentleman who appeared right in this room when we were sitting in Ottawa in February last. Do you remember a gentleman named Casselman? Do you remember him? A. Yes.

Q. From the Ottawa University? A. Yes, I remember him.

Q. He appeared before this commission and placed on record a brief, and no doubt you will remember some questions which were asked him at the time? A. I have not refreshed my memory on them.

Q. I do not mean the specific questions, but I mean generally his theme. You remember that? A. Yes.

Q. Do you accept his brief, speaking generally, in support of the views of the Union, or would you like to make some modification of it? A. Really I could not answer that question yes or no, because I have not studied the brief. I listened to it at the time, and I got a copy some weeks later, but I have not reread it.

Q. There was one particular phrase which I think it is only proper I should bring to your attention and on which I should ask your views. I am reading from page 2840 of the Ottawa proceedings, just shortly after Mr. Casselman had finished reading his brief. This conversation took place between myself and the witness:

"Q. Dealing with the last page first, you say: 'Finally if cooperatives are taxed as corporations, democracy's last chance for survival will receive a severe blow'".

Do you remember that? A. I remember it.

Q. And some of the rest of his brief was an argument

more or less leading up to that final remark. You remember it now, do you? A. I do.

Q. Do you accept that portion of his brief represented there, as representative of the ideas of the Union?

A. By no means; not at all.

BY THE CHAIRMAN:

Q. A little over-enthusiastic? A. Decidedly so; yes. I think it is a very exaggerated statement.

BY MR. PARKER:

Q. You want to dissociate the union from any such remarks?

A. Yes, as far as I know their views. Certainly I do not agree myself, because I think it is quite extreme. I will say this, that the argument presented by the brief, as I recall it, was a very interesting argument, and I would not want in any way to disparage Doctor Casselman. But that particular statement I did think went too far.

Q. I have no particular interest in Doctor Casselman at all, and I do not think the commission has any particular interest either. I just wondered whether the opinions he expresses in his brief are to be considered in support of the views of the national Union, or not?

A. Certainly he only expresses the opinion of those for whom he spoke, in that particular.

Q. Were you present at the Toronto hearings?

A. No, I was not there.

Q. Have you had a chance to read the briefs that were presented -- one, I think, in Vancouver -- by certain people who appeared and seemingly volunteered their assistance, so to speak, on behalf of the views of the cooperatives, representing certain political parties? Have you read them?

A. No, I have not.

Q. There has been rather a suggestion made here to-day that the ultimate objectives of the cooperative movement

may lead, either directly or indirectly, to a sort of political action, or some interference with the state. How would you like to express the views of the union in that regard? Is there any such objective?

A. I would say it is a very, very erroneous idea. The cooperative movement always has been, and I expect always will be, politically neutral. It has friends and enemies, if you like to put it in that way, in all political parties; but it is specifically, and has been from the beginning, neutral as to party politics and denominations of religion.

Q. I am not referring now to party politics; let us avoid that, by all means, but politics in general. Is it the ultimate objective of the Cooperative Union to in any way, not through any particular party -- let us leave that out of the question -- so have their institution grow that in turn it will supersede or take the place of or control the government, not in support of any particular party

but as a new type of government of its own? Is that part of its objective? A. No; I do not think cooperators have any special ideas or certainly they have not pronounced themselves on what you might call systems of government. I should like to disabuse your mind entirely of the idea that we are out to expand the activities of the political state in the economic field. If there is any view, it is rather in the other direction.

Q. All right. A. However, we do admit that there is a field for state action, an appropriate field for the operations of the political state, and it may be in respect of certain economic activities. We have already done that in our postal system, for instance.

Q. Do you believe that a portion of what we will call the field of the state should be managed by the cooperative

movement? A. It may be. I cannot foresee any future developments in that direction.

Q. You see, I think it is my duty to point out to you that from all the articles which have been placed before you to-day, certain impressions have been left, we will say; and, if I may say so in all kindness, you have not faced up to them by repudiating them or adopting them. It seems to me that in your position, and in view of the duties which this commission is called upon to perform, namely in making their report on all pertinent facts to the government, you should either approve of or repudiate that line of articles. Do you care to do so?

A. Mr. Keen, whom I know very well, has had complete liberty of publishing his own views in this little magazine--

Q. Can you not understand my question without going all over it again? I just asked if you wanted to take this opportunity of expressing approval of that type of article, or your disapproval of it; that is, articles of the type which have been read to you and the suggestions that have been put to you by Mr. Fillmore. If you do not wish to say anything more, all right.

A. Some of the words read were quotations from other articles, quite a few of them.

Q. I realize that.

A. Some of them were editorials. I will say I am not in agreement with Mr. Keen on a number of points, but I am not interfering with his liberty of action in the Cooperator; it is a matter of personal difference of opinion, or what you might call a slant of view. I can tell you this, that I know very well that as far as the matter of the enlargement of the state's activities in the economic field is concerned, Mr. Keen does not favour any rapid extension of the state activities. Whether or not that is pertinent, I cannot say.

Q. I did not ask you what Mr. Keen's opinions were. To-day I am more interested in your opinions. I cannot make my question any plainer than I did. If you cannot answer it, or prefer not to answer it categorically, all right; it is up to you. A. I think I have already answered as clearly as I can, within the time available, and given my own personal opinions as to the future in so far as it can be foreseen in respect to the scope of the cooperative movement and the scope of other types of business activities, and the scope of the state. I think we cannot lay down any hard and fast rules.

Q. You are proceeding, you see, with a lecture on something which I did not ask you; and, if I may say so, I would rather you did not do that. I brought this matter to your attention to give you free opportunity to express either your approval or disapproval of the general tenor of these articles which were put to you by Mr. Fillmore. If you do not care to take sides in it, that is quite all right, but do not go all over it again, please. Is that clear? A. The general tenor of Mr. Keen's editorial articles --

Q. I did not say anything about that. I said those selections, speaking generally, that Mr. Fillmore brought to your attention. A. I do not believe there is any agreement in there as to any particular common view, in those articles. For instance, the one from the Nebraska Union, that certainly was just a quotation. I do not see how I can answer the question.

Q. All right; if you say you cannot answer, that is all. A. It is not that I do not want to, but I do not see how I can.

Q. Do you know Mr. J.R. Love, of Edmonton?

A. I do.

Q. Does he hold any official position with the Union?

A. No, he does not; not with the National Union, and there is not any Provincial Union in Alberta yet.

Q. Then would that not be a good place to stop?

I asked if he held any official position in the union, and you said no. Would that not be a good place to stop?

A. I did not understand whether you meant the National or Provincial Union.

Q. I will put it in both ways. Does he hold any official position with the National Union? A. No.

Q. Has he ever held an official position with the National Union? A. No.

Q. Does he hold any official position with the Provincial Union? A. There is not any such organization in Alberta yet.

Q. Is he connected in any way with the cooperative movement? A. Oh, yes.

Q. Officially, or otherwise? A. Yes.

Q. What is that? A. I understand he is president of the Alberta Cooperative Wholesale Society.

Q. Did you read the record, and do you know that he appeared before this commission and expressed certain views? A. I have not read the record.

Q. But it has been brought to your attention that he did appear? A. I am not sure that I had it in mind.

Q. You heard the brief which was presented here yesterday by Professor McDougall? A. No, I was not here.

Q. On page 27 of Doctor McDougall's brief he makes I will not say an attack on the cooperatives, but he makes some comments on their method of doing business, and he goes on to make this statement:

"Certain of the more ardent proponents of cooperatives envisage their growth until they are certainly the dominant and possibly the only surviving business form."

That was the statement by Doctor McDougall yesterday, and he goes on to say:

"It is, therefore desirable to examine the effects which might be expected to follow on a growth of this kind."

His authority for the statement which I just read to you is this man Love, and you know who he is? A. Yes, I know him.

Q. I want to place Mr. Love's views before you, and see if you agree, or to see if you think Doctor McDougall went a little too far. Listen to me, please. This is taken, apparently, from an article by him printed in the Co-op News Press, whatever that is, and no date is given.

"Cooperatives must become the common denominator of producer and consumer groups - not the political government. The use of the political state to regulate an economic system is external and unnatural and, accordingly, dictatorial. Only an internal consumer-producer cooperative economy can be self-regulating and democratic.

"It is toward that ultimate economic system we cooperators strive - a democratic cooperative economy - an economy of freedom and abundance. An economy not only for the people but also of the people and by the people. An economy which will provide everyone with the three economic rights of ownership of productive property, employment and equitable incomes. With our natural resources and power production we need only develop still further the spirit of brotherhood and the

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necessary cooperative organizations. When mankind is willing to cooperate and when we learn how to organize cooperatively - then we will achieve the goal. This is the star that leads us on."

Do you think that is a fair summary of the ideas and objectives, at least in part, of the cooperative movement?

A. That is very much on a par with Doctor Warbasse's Cooperative Democracy. It is a certain social philosophy, and economic theory --

Q. You need not describe it. I am asking if, in your view, that is a fair summary, in part at least, of the objectives of the cooperative movement in this country.

A. I do not know what other cooperators think about Mr. Love's views.

Q. I am not asking you that. I am asking you what you think about them? A. I think they are very interesting, but I do not agree; nor do I, in a very definite way, disagree. I do not know. He is looking ahead too far, and I am not prepared to say what the future is going to bring forward.

Q. That is your personal view? I will go one step farther now, and say: do you feel that it expresses the views of the Union as a whole? A. No.

Q. You think it goes too far? A. Certainly there is nothing in that which expresses the views of the organized cooperative movement.

MR. PARKER: That is all, thank you.

BY MR. NADEAU:

Q. Did you survey the Swedish cooperative movement?

A. To a limited extent.

Q. Do you know whether in Sweden the cooperatives are taxed? A. No, I am not familiar with the tax position

of the cooperatives there.

Q. Could you give me shortly an explanation as to why the Canadian cooperatives in general, and especially those in western Canada, have departed from the capital stock system and replaced it by this revolving fund?

A. I am afraid I am not in a position to speak for the western cooperatives, but there has been a general tendency to depart from the share capital set-up.

Q. Could you see any explanation for that?

A. Yes. The explanation in Ontario is quite simple. It is that under the share capital set-up there is no possibility of getting rid of a man who develops into a nuisance. He retains his share capital, and nobody can deprive him of it. He comes to meetings, and he makes a nuisance of himself. He may actually sabotage the institution; we cannot get rid of him.

Q. Do you consider that this system of loan, as you have it in Ontario, which has progressively replaced the capital stock structure -- . A. Yes.

Q. Do you consider that to be a departure from the Rochdale principle? A. No, I do not.

BY MR. ARNASON:

Q. Mr. Good, in connection with the question that Mr. Nadeau asked you, in reference to the displacement of capital stock by another system of financing, while you may not have detailed knowledge of conditions in western Canada, in your opinion is it conceivable, bearing in mind the fact that the use of this system developed during the depression of 1930 to 1937 and 1938 -- is it conceivable that this system came into vogue more or less because of the low purchasing power of the farmers, and because they were not

in a position to furnish large units of capital investment in advance? Do you think that may have had something to do with it? A. I think it is altogether likely that it did affect the decision, as far as I know the situation out there, but I am not intimately familiar with it. I can very readily see that it would be a consideration.

Q. In view of your knowledge of cooperative developments in Canada, is it your observation that where a cooperative has been organized, it has been organized with, shall we say, the hope of meeting some definite economic need; or has it been organized with a view to evolving some brand new system of enterprise? A. Well, I would say that so far as the rank and file of Canadian cooperators are concerned, they are not given to philosophical speculation over social systems and that kind of thing, but they are concerned with the satisfaction of their needs, and I would venture the guess that ninety-nine per cent of Canadian Cooperators have undertaken their work to satisfy a definite need for themselves and their fellows. I am quite sure of that.

Q. By that you mean an economic need? A. Yes, an economic need; or, if you like, a social need, if the organization ministers to something other than economic needs.

MR. PARKER: Then this is the brief that is being submitted?

THE WITNESS: Yes. I had hoped to say a word or two in explanation of it, but under the circumstances, at this hour I will just leave it as it is.

Q. This is the supplementary brief? A. Yes.

The Co-operative Union of Canada

(Supplementary Brief submitted on behalf of the Co-operative Union of Canada)

"The cooperative movement from the point of view of economic and social science. Co-operatives and history.

"The chapters of human history are not the stories of isolated incidents but part of one story of continuous change and development, no part of which is foreign to, or dissociated from, any other part. It is the story of civilization itself, the story of community and of the various forms of association which give expression to the sense of community. Some of these associations are economic and the story of the development of the body economic is part of the story of civilization.

The Body Economic

As the traveller, threading his way through the dense forest, easily loses all sense of direction and proportion, so he who is immersed in the myriad complexities of man's economic activities finds it almost impossible to see in them any plan or rationality. But if the traveller climbs to some high mountain top, then the whole panorama of field and forest, lake and river, hill and valley, spreads itself before him, and all the details which were so bewildering when viewed close up are seen in their proper places and proportions. It is even so with him who would see the economic life of man as a whole. He must betake himself to the mountain top, and, in wide sweep of vision view the whole panorama of man's efforts: thus seen bewildering economic complexities fall into their proper places, and exhibit a definite and comparatively simple plan.

"In its broadest outlines the world may be divided into

Nature and Man. By nature we mean all those resources of earth and air and sea, those radiant forces of light, heat and electricity which come we know not whence, those treasures which lie buried in the bowels of the earth, and more especially those wonderful potentialities which reside in the world of living organisms, in plant and beast and bird, in leviathan which plow the seas, and not less in the tiniest microscopic particle of life. We place man apart from these not because he does not belong to nature, but because there is that in man -- the reasoning tool-using animal -- which transcends the rest of nature, which bends all else to its will, which subordinates, which dominates, which guides, which uses. Man is in one sense a creature of his environment; but he is more; he creates his environment. There has come down to us in ancient Hebrew poetry that old story of beginnings, where God 'created man in his own image,' and blessed him and bade him subdue the earth, 'and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth.' That this is true all history bears witness. Nor is the subjugation of the earth yet complete, though proceeding with amazing rapidity.

"Historically the body economic takes many forms. The simplest, and probably first in point of time, is the hunting and fishing type of life, in which man differs not greatly from the brutes below, save in the devising and use of weapons and tools. This ancient way of life leaves few relics of its existence. However, we do not need to penetrate the mists of the past, or search the cave-dwellings of primitive man for indications of this mode. We need only cast our eyes abroad and see what still survives in the life of the Eskimo, in that of the Red Indian of two centuries ago, and, indeed, in

the occasional activities of the modern and sophisticated city dweller. Man has ever supplied his needs by simply helping himself to the abundance which mother nature provides.

"Rudimentary agriculture and horticulture, involving the domestication of plants, and their cultivation and improvement, was also an early mode of industry, characteristic of those fertile and well watered plains where the earliest civilizations developed. Growth of this mode of life has probably been more generally characteristic of all history than any other; and to-day it forms the basis of the physical life of man.

"The domestication of animals, the foundation of live stock husbandry, was also an early feature of industry, pictured for us vividly in the lives of the old Hebrew patriarchs, and still existing on the arid plains of Asia, as well as more recently on the semi-arid plains of the two Americas. Nomadic habits, characteristic of this mode of living, have been a wide-spread feature of history, and have undoubtedly made a definite contribution to the thought-life of the race, and to the development of such sciences as astronomy.

"Mining and metallurgy provided tools and ornaments, spinning and weaving provided clothing, building and architecture provided protection against the inclemency of the seasons; thus grew the handicrafts out of which modern industrialism developed after mechanical power became available.

"Then again, linked with handicrafts on the one side and with the creative imagination on the other, we have the development of the cultural and artistic sides of life, in pictorial art, music and literature.

"If one surveys in mental retrospect the history of

Egypt and Mesopotamia, of Hindustan and the Far East, of Palestine and Arabia, of Greece and Rome, of Britain and modern Europe, and, more recently, of western civilization in Africa, Australia, and the two Americas, he will see these various types of industry growing and changing, overlapping and interlacing, and often commingling. In the civilizations which have left the most notable records, such as those of Egypt, Greece and Rome, there has been the greatest commingling of various modes of industry -- agriculture, animal husbandry, handicrafts, and also the various arts and cultural activities. Particularly is this true of western civilization as we have known it in modern times. Great variety of occupation, great diversity of skill and knowledge, great specialization: these mark modern life. But they are characteristic not alone of modern society; they mark every considerable civilization the world has known.

General observations concerning the body economic

"In the first place, it is clear that the purpose of men's economic activities, whether they be simple or complex, is to sustain life. At bottom is the physical life, without which nothing higher is possible; and therefore a modicum of food and clothing and protection is imperative. Beyond this industry ministers in varying degrees to the intellectual, esthetic, and spiritual life; and there are no bounds to the demands which man makes upon industry in respect of these higher aspects of life.

"Secondly one must give close and careful attention to the very obvious fact of the division of labour, and more especially to the implications thereof. The facts, indeed, are so commonplace that they do not sufficiently impress us. That the shoemaker should exchange an extra pair of shoes for the extra coat which the tailor has made; that the farmer

should grow the wheat, the miller grind it, and the baker bake it; that the arctic sealer should exchange his catch for the fruits of the tropics; that, in short, each should confine his efforts mainly to specialized activities which either natural aptitude, training or outward conditions make relatively easy, and exchange his labour or its material products for the labour or products of others who have specialized along other lines; -- all this seems so natural, so proper, so inevitable, and so mutually helpful, that we take it for granted, and rarely follow the process to its logical conclusions. And yet many of the implications of this world-wide practice are of profound importance and are little understood.

"At the outset one may observe that the division of labour need not involve exchange. A notable case is the family on the farm, where father plows and sows and reaps, mother cooks and washes and mends, Mary sweeps and dusts and makes the beds, Willie attends to the garden and the chickens, while Tommy looks after the cows. Each makes his or her distinct contribution to a common fund from which all draw more or less according to their individual needs. This manner of living and working can, of course, be extended more widely, and forms the basis of all communistic groups. A good modern example, in the world of literature, is Edward Bellamy's 'Looking Backwards'.

"Nevertheless historically exchange has generally followed upon the division of labour; and it is easy to see how this has come about, by reason of the relative difficulty of organizing upon a family basis over a large territory as compared with the relative ease of securing the advantages of the division of labour through exchange. Moreover, though

altruism is a dominating factor in family life, its extension far beyond the family awaits gradual development, meeting constantly, as it must, the innate egoism of human nature. Furthermore exchange is, at least in its essence, mutually beneficial, and to that extent it reconciles both egoism and altruism. As the saying goes, 'it takes two to make a bargain,' the inference being that no exchange takes place unless benefit is conferred on both parties.

"But here arise some very difficult and far-reaching questions. Granting that no exchange would take place without a mutuality of benefit, does equity require that there should be an equivalence of benefit on both sides? For example, it was customary for the early North American fur traders to exchange coloured beads, knives, guns, trinkets of all sorts, and even whiskey, for pelts. Similar practices prevailed among the African ivory hunters. It might be claimed that the Indian preferred a few bits of coloured glass to a superfluous fox skin, and that such an exchange involved a mutuality of benefit. Similarly with the African natives: was not a bit of gaudy calico better than an elephant tusk? And what about the case of a desert traveller coming upon a fellow traveller dying of thirst and bargaining with him for his gold watch, or a year's work, or perpetual servitude, ere giving him the life-saving drink of water? Mutuality of service? Unquestionably. But what about equivalence? Shylock may bargain for his pound of flesh, and the bargain may be agreed to upon the basis of mutual service. And yet is it not true that the principle of mutuality does not finally dispose of the matter, but that, however difficult of measurement, the principle of equivalence should not be disregarded?

"Caveat Emptor is a warning that has come down to us from the distant past; and apparently it is as necessary nowadays as formerly. A few years ago Dr. Tory, then chief of the National Research Council of Canada, submitted exhaustive evidence to the Royal Commission on Price Spreads dealing with a great variety of ways in which the modern consumer is imposed on; and, indeed, much of the evidence submitted to the commission by others bore witness to the same imposition. Adulteration, short weight, misrepresentation -- all these persist; and to them the practice of exchange opens the door.

Economic Theories

"Economists have worked out very elaborate theories dealing with the adjustment of supply to demand through the mechanism of prices. The theory, apart from complications and modifications, is simple and fascinating. Consumer demand directs production. If shoes are scarce up goes the price; increased labour and capital flow into the production of shoes, until the supply catches up with the demand. If people prefer pork to beef they will bid more for it than for the beef; and the stock raiser finds it more profitable to raise pigs than cattle. By their dollar votes, turned in over the counter, consumers elect what shall be produced. Nothing, apparently, could be simpler, more automatic, more admirable.

"So, too, it is claimed that substantial justice is done, and that no one can be overcharged, when there is free competition between sellers and free competition between buyers. Why pay more to one seller when another offers the same goods for less? And no price can be less than the cost of production, or the producer will go out of business. How simple and admirable it all seems!

"But life is not quite so simple as this theory. Demand

must be effective in order to stimulate supply; and the unemployed industrial worker with no dollars in his pocket may have intense desire and need for many things but makes little impression on the market. Demand in one sense is insatiable, but unless it expresses itself in a form that makes an exchange possible it will be futile. Further, demand varies with the real need for the thing demanded. A man with a full stomach wants no more bread: more would only sicken him. But a starving man's need is intense and peremptory. Great disparity in personal need, together with disparity in the means of satisfying that need, introduce all sorts of complications. Wealth, in the sense of that which makes for welfare, implies not only an intrinsic quality in the thing possessed, but a corresponding capacity on the part of the possessing person. Possession is but nominal unless there be appropriation or use, in which matter, obviously, there is an infinite gradation.

"Value in exchange, therefore, which is at the basis of price, may have much or may have little connection with value in use, though the latter, obviously, is of unique importance in the light of final human values. Even value in exchange, almost exclusively dealt with in economic theory, introduces a host of psychological and moral considerations with which the economist usually says he does not deal.

"Again how can 'free competition' be maintained, so that 'rough justice' may follow? And may one expect even approximate justice where there is one buyer and many sellers or one seller and many buyers? Where there is one abattoir dealing with many thousands of farmers what may one expect of the bargains made? Modern industrial history is full of such cases. Moreover 'under-selling' may be made possible by adulteration, deception or by the exploitation of labour and

not through greater productive efficiency. Of this we have had multitudinous examples, from the terrible conditions which prevailed in British factories and mines during the first half of the 19th century up to the present.

"Cost of production is a very indefinable and variable quantity, dependent upon a great variety of factors; and all these introduce complications into the bald and simple theory. Not only are there the factors already mentioned; there are also those arising from what may be called industrial inertia or friction. Consider, for example, the very conspicuous modern case of the farmer faced with an appalling collapse in the price of farm products. What does he do; what must he do? If he would feed and clothe his family and meet his obligations he must at least try to make good a price fall by increased productive efficiency. At a time when supply should contract in accordance with a lessening demand, the farmer is under strong compulsion to produce more. And if, by reason of climatic vagaries or other uncontrollable circumstances he does not succeed, he will, for a considerable time, cut down his standard of living, hoping that next year or the year after crops or prices may be better. Attachment to the land, also, where one has invested the thought and work of a lifetime; where, perchance, one's father and one's grandfather worked and died; the sacred memories and traditions centering in the old home -- all these hold the farmer to his land and his job. And what is 'cost of production' under such circumstances? And what about the adjustment of supply to demand?

"Verily there are complications, sufficient, it would appear, seriously to affect the applicability, if not the validity, of the general theory.

"This general theory was probably first and best expounded by the British economist, Adam Smith (1723-1790) in his great classic 'The Wealth of Nations'. Smith owed much to the French physiocrats, among whom originated the doctrine of laissez-faire. The general economic philosophy expounded by Smith soon attained extraordinary popularity and commands the allegiance of a great many people even to this present day. 'Smith persuaded his own generation and governed the next,' say Professors Gide and Rist in their monumental 'History of Economic Doctrines'.

"But history does not stand still: events move on. And, singularly enough, this philosophy of Adam Smith had scarcely been formulated when the industrial revolution began, a revolution that, by adding to human strength those vast mechanical powers hitherto untapped by mankind, and proceeding with increasing momentum, has changed fundamentally the whole economic pattern. The broad fact is that until this time there had been no material change in the economic pattern since the dawn of history, even though some wonderful feats of engineering such as the building of the pyramids, had been accomplished. It had always been the age of handicraft.

"It was not to be wondered at, therefore, if Smith's brilliant analysis of an economic pattern that had never materially changed, together with many of his conclusions, did not fit the new world of mechanical power that came into being after his death. Nor was it strange that human beings found it difficult to adjust their thinking and their behaviour with sufficient speed to the strange new world that was taking shape about them. Some time lag in human thinking is inevitable. And this time lag sets up terrific stresses in times of unusually rapid technological change. It is probably one of

the tragic ironies of history that at such a time the influence of a great thinker should have added to the difficulties of adaptation, by dominating the thinking of those who succeeded him. At such times the world needs bold thinkers, who, either driven by desperate need or free from enslavement to popular traditions, venture into unknown territory along untrodden paths. And some of these bold thinkers there were, of whom the Rochdale Pioneers were by no means the least important. They pioneered with a new form of conscious cooperation.

"That the Rochdale Pioneers were bold thinkers is borne out by the far-reaching plans they enunciated. Nevertheless it is doubtful if they realized how tremendous were the implications of their technique. Only the intervening years have shown how this technique is developing a new social economy without any sudden and catastrophic interference with an economy built upon the division of labour with exchange through a price system -- a new social economy using many of the tools and methods of the old economy, but directed towards wiping out the fearful evils which have resulted from the attempt to carry into this modern age of large scale industrialization the mottoes and methods suitable to an age of handicraft. For, although many cooperators may not realise it, they are attempting to extend the ideals and relationships of the family in ever widening circles to mankind generally; and to utilize all the advantages of the division of labour without the disadvantages which have accompanied the historic development of exchange. It is true that outside the historic co-operative movement, both before and after its inception, many attempts have been made to extend the family relationships to larger groups, but these have nearly all been based upon the monastic pattern. Such groups have cut themselves off from

the general body economic and have tried to build up little worlds of their own. Without disparaging any of these efforts history has given them scanty vindication. But cooperators have followed a different path. They are building up a new economic system in the very midst of the old, and partaking more or less of the imperfections of the old. They propose to take over gradually; and this they are doing. They have often been accused of committing the same sins that they condemn in other forms of business; and there is a modicum of truth in this charge. But their objective is different: their faces are turned to the future; and if, meanwhile, they will get along as best they can with people as they are and with business as it is, such conduct is no final proof that they are no different from others. Christians must live in the world (unless they become hermits) and share the world's sin; but they need not be basically 'of the world.'

"There are some apparent exceptions to the general rule here stated, but they are 'the exceptions that prove the rule.' Cooperatives, like every other business, and especially in the early stages of their development, sometimes get into financial difficulties. Sometimes they go into bankruptcy. Sometimes they are sabotaged from within. Under such conditions they may disappear, or may be 'taken over' by a private individual or a non-cooperative corporation. In this sense they may be said to be sold. In some few cases a cooperative which has allowed its non-member business to assume large proportions has voluntarily transformed itself into a non-cooperative, so that the earnings on non-member business may be more easily appropriated by the few who own and control. But, by and large, cooperatives are increasingly community institutions; and if, in some cases, developments seem to be

in reverse it may be pointed out that democratic governments have been known to disappear. Democratic development in every sphere is possible but is not guaranteed.

"There is another consideration that shows how fundamental is the difference between the cooperative economy and that typified by the joint stock company. Joint stock companies are bought and sold, like cattle or hogs. They may be 'owned' by this group to-day and by that group to-morrow. But cooperatives are not bought and sold. They are community institutions. Cooperators would no more think of 'selling' their cooperatives than they would of selling their schools or their churches. They are truthfully 'of the people, by the people and for the people.' In this sense they are not merely different 'forms of business organization' from that of the joint stock company: they are fundamentally of a different species.

"As has been already intimated in our introductory submission cooperative development has been roughly contemporaneous with the industrial revolution and with the development of the joint stock company; and cooperatives take on their special significance as alternative forms of business organization to the joint stock company. And there is no doubt that the general economic philosophy which originated with Adam Smith, further developed by the incorporation of the Darwinian doctrine of 'the survival of the fittest,' has been used to buttress the structure and the practice of the joint stock company. Nor is it without great significance that during the early development of the cooperative movement writers and thinkers protested vehemently against the ethical and philosophic basis for what was then incipient capitalism. (See, for example, Carlyle's 'Past and Present').

Cooperatives and Social Science

"It is difficult, however, to correctly appraise the emergence of the cooperative movement at a certain period of economic development, and its significance for the future, without a more complete examination of elemental forces and processes.

"As has been already intimated the general economic philosophy which flourished between 1750 and 1850 received unexpected support during the second half of the 19th century from certain perversions of Darwin's doctrine of the survival of the fittest. Darwin's epoch-making book on 'The Origin of Species' appeared in 1859. It met with a stormy reception but by the end of the century its main thesis was pretty well conceded. Unfortunately, however, as so often happens, the brilliant generalizations of a great thinker were seized upon by those of limited intelligence and much distorted. In fact, so completely was Darwinism perverted and misapplied that we find General Bernhardt in 1913 ('Germany and the Next War') defending and glorifying war as a salutary method of natural selection leading to the survival of the fittest. There is little doubt that such teaching as Bernhardt's played no small part in bringing on the two frightful world wars. And, with respect to our industrial and commercial life, everyone is familiar with the cynical use of the phrase 'The survival of the fittest,' when it seemed desirable to justify some particularly glaring case of economic exploitation. There is, indeed, a very interesting parallel between the way in which Darwin's theories have been seized upon by people of predatory disposition and the way in which the economic philosophy of Adam Smith was perverted by those of the same type.

"It is notoriously difficult to catch up with a false

rumour and equally difficult to overtake a scientific error. But twenty years before Bernhardt issued his book Henry Drummond was delivering the Lowell lectures on the 'Ascent of Man,' specifically challenging the statement, or assumption that the struggle for existence was the only, or indeed the chief, factor in the evolution of life. Drummond pointed out that the struggle for the life of others was equally as important, and as ancient, as the struggle for life; and that both were indispensable factors in the course of organic evolution. He pointed out also that as one proceeds from the lower to the higher forms of life the struggle for the life of others, or the altruistic principle, becomes of relatively greater importance, so that, while the struggle for life never disappears, the plane on which it takes place shifts and it becomes, if one may use the term, less brutal. The 'Ascent of Man' was probably the earliest, and completest, answer to popular perversions of Darwinism. But it did not stand alone: many other scientists and writers have shown how great a factor the principle of mutual aid has been during the course of organic evolution.

"The struggle for the life of others arises from the fact and function of reproduction. Save as individual organisms protect and provide for their offspring the race dies out, and even the struggle for life disappears. A certain degree of altruism on the part of the individual is therefore necessary if the race is to survive; and as the scale of life is ascended, the relative importance of this altruism becomes greater and greater, culminating in the maternal love of the human mother. Involved are such virtues as sympathy, patience and tenderness. Mother love compels the respect and honour of all people, and often overflows the family circle in a stream

of never failing courtesy and kindness which is as the benediction of gentle rain upon the parched ground. Moreover, altruism becomes to some extent instinctive, and is inherited by both sexes. No summer passes but that men jump into the water to save fellow humans from drowning, even strangers, risking, and sometimes losing, life, with no thought of self. The mother 'dies daily' for her children, and all life is a continual sacrifice.

"In the human family, that earliest and most fundamental of all social institutions, the altruistic principle of mutual aid finds scope for extended development, and it is not without good reason that all other social groups are largely modelled on this primary one. Nor is it without vital significance that the religion of love draws its illustrations from the same source.

"It is important to note that in every living thing there are always these two struggles - the struggle for life and the struggle for the life of others. 'The web of life,' as Drummond says, 'is woven upon a double set of threads, the second thread distinct in colour from the first, and giving a totally different pattern to the finished fabric.' To say that 'self-preservation is the first law of nature' is to state only half the truth: it is equally true that 'self-sacrifice is the first law of nature.' Not one of us would be what he is, not one would even have the opportunity to exert 'self-preserving' activities were it not for the sacrifices of those who have gone before. And this is true not only of the family according to the flesh, but also of those larger human families which are according to the spirit.

"It should be noted also that in respect to many of life's activities egoism and altruism coincide, or at least

do not conflict. All egoistic impulses do not lead to anti-social conduct. The farmer who finds satisfaction in plowing a straight furrow or developing high quality live stock; the musician whose soul overflows in the melody from his instrument; the bricklayer who prides himself on the soundness and accuracy of his workmanship; all craftsmen and artists find self-expression in that which helps, and does not harm, others. If the joy of self-expression in creative work be egoistic, it may also be altruistic. In fact there are different 'selves' in everyone, and self-realization may mean a rough and callous disregard of others' interests or, on the contrary, the utmost consideration for the rights and welfare of one's fellows. Self-expression in ways that help is, indeed, altruism; though, when viewed from a different angle, it seems egoism. This is a case of the general social law that 'socialization and individualization are the two sides of a single process.'*

* See 'Community' by R. M. MacIvor, Book III. Chap. III.

"Egoism corresponds to the principle and practice of competition, altruism corresponds to the principle and practice of cooperation. Every organism higher than the unicellular comes into being because of the cooperation of cell with cell and tissue with tissue. Every individual outside an extremely limited sphere comes into existence through the cooperation of male and female. Plants depend upon insects to bring about fertilization and often upon other animals to distribute their seeds. Animals depend upon plants for their sustenance. The ruminants and other gregarious animals cooperate in herds or troops for mutual aid, as does also man in families, tribes and nations. Through division of labour and exchange man also works out very effective cooperation in the economic

sphere.

"But competition remains, and without it there can be no victory, there can be no 'survival of the fittest.' Where the competition is between individuals those who are stronger, or abler or who can best adapt themselves to their environment survive, the others lose out in the race. Where the competition is between groups the same holds true of the group as of the individual. But in this case effective cooperation within the group brings group strength, so that the ability to cooperate is made the condition of survival. There is at least so much truth in Bernhardt's defence of war, that it may sometimes lead to the survival of those who cooperate most effectively. Unfortunately for Bernhardt's case there are many other factors which affect the arbitrament of war, and it is only under special circumstances that moral qualities determine military strength and become decisive factors. In the case of international competition there are also many other things beside military prowess which may affect survival, as, for example, greater fecundity. When it comes to competition in the field of industry and commerce the situation is extremely complex. But nevertheless the principle remains: some kind of competition is necessary to tip the scales and give the victory to those who have demonstrated their superiority.

"These two principles, then, remain: the twin streams of egoism and altruism running through all life and history, acting and reacting upon one another in most wonderful ways. And the whole course of organic evolution has but one lesson, namely, that the struggle for life eventually merges with, loses itself in, or is swallowed up by, the struggle for the life of others. Its eternal purpose having been served it

fades to negligible proportions.

Social Evolution

"And note again, that the same forces carry on into human society and human history. The fading out of brutal competition between the members of a human family -- the end product of organic evolution -- does not immediately follow in the relationships between different families (or tribes, or nations). It takes time and often bitter experience to show people that the interests of the individual family (or tribe or nation) are best served not by inter-family conflict but by inter-family cooperation. Human beings are learning some pretty painful lessons in this connection during these fateful days in respect of international relations. Nevertheless the lessons of biology are the same as those of sociology, because all life is of a piece. And the problems of society are all tied up in the reconciliation and identification and realization of conflicting group interests in the larger interests of the larger group. The end product of biological evolution, the human family, is the starting point for social evolution, and is surely the forerunner and the type of that end product of social evolution, the family of all nations, races, and tongues, towards which all creation is now painfully struggling.

"The cooperative movement, we submit, has a definite role to play in this process. It is firmly based upon the final and supreme law of life, the struggle for the life of others. And it is explicitly committed to extend the ideals and relationships manifested within the human family to those wider relationships between families, where so often in the past the spirit and practice of conflict has prevailed. In

the evolution of the 'body politic' a large degree of reconciliation and integration of conflicting family interests has been secured in that larger family the Nation. But this process of reconciliation and integration lags in the 'body economic,' and, as a consequence, modern society is torn with strife between various industrial groups. The so-called inevitable and automatic harmony which many people read into the teachings of Adam Smith has been tragically dislocated by the developments of the industrial revolution; and it has needed not only basic cooperative philosophy but also cooperative technique, to show how unity and harmony may be restored in the modern welter of conflicting economic groups. It is on the universal basis of consumer need that the co-operator proposes to integrate economic society, and to which all organized functional groups shall be subordinate. The co-operator does not deny the potential harmony and co-operation arising from the division of labour. He accepts it and realizes it through a new technique; he makes the potential actual in the only way it can be realized under modern conditions.

"The subordination of various functional groups to an all-inclusive consumer group does not mean that the former are less important in the development of society. All it means is that because industrial function divides society into a great many groups, whereas basic consumer need unites society into one group, the lesser groups are subordinate to the larger. The coordination of producer and consumer types of cooperatives is a fairly big question by itself and cannot be discussed here.

"Moreover, to all who profess allegiance to the Christian religion, comes further support for cooperative philosophy and

practice in the bidding of the Master to love our neighbours as ourselves. And where is the law of love and mutual helpfulness, of interdependence and solidarity more fittingly expressed than in the world-wide cooperative motto, 'Each for all and all for each.'

"And so from all quarters -- from history, from science and from religion -- comes evidence that the Golden Rule is not primarily a counsel of perfection, but the great law of life, without obedience to which man cannot enjoy the blessings of prosperity and peace.

"In such a setting the cooperative movement takes on a unique significance at this crisis in the world's history."

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BY MR. PARKER:

Q. Now, Mr. Good, you have just produced your recommendations. First I want to know when they were finally completed and how long they have been ready. I am not offering that by way of criticism because they have not been produced before. A. I wonder if you would let me deal --

Q. Would you just answer that. When were they finally completed and O.K.'d by yourself; how long ago? A. Not very many days ago.

Q. How many? A. Two or three days ago.

Q. These recommendations have the approval of what body of men or what associations? They will be given careful consideration, and I want the Commission to have a clear idea of what body of opinion backs up these specific recommendations. You tell us, in your own words? A. These arise directly from a meeting which was held here on April 20 and 21, which was attended by some forty representatives of the Canadian cooperatives, representing all the

provinces of Canada except Prince Edward Island. As far as I know these representations express the unanimous opinion of those who were in attendance.

Q. Of those forty or so? A. Yes.

Q. Were they finalized and submitted in this form to those forty? A. No.

Q. In what form were they approved? A. The final form was determined by a committee.

Q. A committee of how many? A. A committee which was set up; a committee of ten set up at the meeting.

Q. A sort of subcommittee of this forty? A. Yes. It was found impossible to come to a conclusion on all the matters at the meeting, and it was left in the hands of the committee.

Q. The committee of ten? A. Yes.

Q. What ten? A. Do you mean the names?

Q. Yes? A. Well, I do not know that I remember them offhand. There were the five solicitors.

Q. If you remember some of them tell us, please.

A. Yes. There was Mr. Francis, Mr. Milliken, Mr. Porter, Mr. Beauregard, Mr. A. B. MacDonald, myself, Mr. Savage of Toronto, representing the Ontario Co-operative Union; Mr. Bussiere, secretary of the Superior Council of Quebec.

Q. That is eight, I believe. Who were the other two?

A. I do not recall at the moment.

Q. Mr. MacDonald reminds me that there were eight?

A. It may be that ten were mentioned and two did not function.

Q. Those were the people who finally put their O.K. on it? A. Yes. I may say it was submitted a little outside that group, to any who could be consulted here, who were here in Ottawa; but the big group had left.

BY MR. VAUGHAN:

Q. Mr. Scarth from Manitoba? A. Yes. I beg your pardon; he was there too.

BY MR. PARKER:

Q. He has seen these in their present form and approved them? A. Yes. I omitted his name by inadvertence.

Q. And do I understand the representatives of the United Grain Growers --

MR. STEER: No, we had nothing to do with it from beginning to end.

MR. PARKER: You do not take any credit for it?

MR. STEER: None whatever. We have enough trouble of our own.

MR. PARKER: Then will you read the recommendations?

MR. FILLMORE: We have seen them.

MR. PARKER: The Commissioners have not, and I think it is best to have an appreciation of them. It will take only a few minutes.

MR. FILLMORE: We do not propose to deal with them now. We will put in a written argument and not take up any more time, as far as I am concerned.

MR. PARKER: I have not had time to read them myself, and I am not sure whether or not I want to ask any questions. By the time they are read I will know.

THE WITNESS:

"The recommendations fall under two headings:

"(1) The present position of cooperatives referred to in clause (a) of the terms of reference.

"(2) Amendment of laws in the public interest.

(1) Present Position

"The Commission is required under clause (a) of the

terms of reference to report on the present position of co-operatives, and in this regard a specific recommendation is made as follows.

"The interpretation of the law has led to great uncertainty as to its application to the tax liability of co-operatives. The administration has been such that cooperatives have been led to believe that their income was not subject to taxation. Cooperatives have complied with the spirit, if not the letter of the law.

"It is therefore recommended that no cooperatives which have not been assessed, should be assessed retroactively, and that present assessments of cooperatives be cancelled, if they have fulfilled the intention of the law.

(2) Amendment of Laws in the Public Interest

"We submit that the income of a cooperative defined as follows should not be taxable.

'A cooperative is --

'1. An association of individuals incorporated or unincorporated, with or without share capital, who are united to satisfy their needs as producers or consumers and which for that purpose engages in any enterprises or performs any services for its members, which association:

'(a) is controlled by its members, directly or indirectly, on the basis of one member, one vote;

'(b) if it is incorporated with share capital, restricts the rate of interest thereon to not more than 6 per cent per annum.'

I am bound to make some explanation about that figure 6 per cent. Owing to the variation of interest rates between one time and another and one place and another, the exact figure here is immaterial to the recommendation. The maximum

percentage allowed under provincial law varies, but it is usually larger than this. So I would have you understand that this particular figure of 6 per cent is a matter which does not involve any question of principle.

"(c) Provides service at cost for its members, and in so doing, periodically pays or allocates for payment to its members approximately in proportion to the patronage contributed by each, all moneys remaining in its hands after payment of all costs, expenses, interest, if any, to shareholders or upon member owned capital employed in the business, and after deducting any patronage returns paid or allocated to non-members, and after providing for necessary reserves. Patronage returns to non-members may be paid or allocated at a lower rate than to members.

"or '2. An association incorporated or unincorporated, with or without share capital, formed for the purpose of furthering the objects of cooperatives as above defined, which:

- '(a) is controlled by cooperatives, or
- '(b) operates as an agent for cooperatives,

and

'(c) complies with the provisions set forth in subparagraphs 1(b) and 1(c) above.'

"With reference to the above definition the following proposals for amending legislation are made."

It is not very clear just what we have in mind there. There are a number of questions that will arise in connection with any proposed changes in the Act, and one of them has to do with non-member business. We have not included that and could not include it in the definition, but it must be borne in mind in connection with amending legislation. Now here

are the three riders or a short addendum which has reference to any amending legislation which may be thought desirable.

"1. If an association does more than 50 per cent of the total volume of its business with non-members, it shall not be deemed to be a cooperative.

"2. If a cooperative does business with non-members in excess of 20 per cent of its total volume it shall not be exempt from income tax in respect of income derived from such excess."

May I make a brief comment on that 20 per cent. We are not basing that figure on any principle, purely on the basis that it was taken by Mr. Dunning when the Act was passed in 1930, as a matter of convenience in calculation, in order to avoid administrative difficulties, and things of that sort, and the difficulty about calculating the earnings on non-member business. I say the principle is admitted of the taxability of earnings on non-member business, but it is suggested that the 20 per cent line of demarcation, which has been in section 4(p) since 1930 --

BY MR. VAUGHAN:

Q. That is not intended as it is written, is it? That is 20 per cent of the total volume? / A. That has always complicated the calculation. We suggest this other, for conveniences in calculation. I am trying to make clear the basis on which the recommendation is made.

"3. The investment income of a cooperative arising from the investment of its necessary reserves or allocated returns shall be exempt."

May I say, Mr. Chairman, in connection with these recommendations, that the argument in support of them will be given by our counsel; and the counsel who were appointed as a

committee at the Winnipeg meeting in January are as follows: Messrs. Francis, Milliken, Porter, Scarth and Beaugard, and I also want to say that while a number of these recommendations are applicable to credit unions, the case of the credit unions is being presented or has been presented very largely under provincial auspices, and I understand will be dealt with by Mr. Hudon, I think. I am not just sure who will argue the case, with Mr. Francis; but I just wanted to explain that we are not overlooking the credit unions. There may be certain special representations regarding credit unions, but I am not just sure what they may be. Perhaps Mr. Francis will say just what the arrangement is.

MR. FRANCIS: It has not been definitely arranged, but the recommendations are contained in the provincial submissions, and they will be dealt with. No further recommendations will be made, I think. They are contained in the provincial submissions.

(Page 7740 follows)

MR. PARKER: I have just one or two very short questions, to help us understand this.

Q. I notice, Mr. Good, that in the introductory part you say:

"The interpretation of the law has led to great uncertainty as to its application to the tax liability of cooperatives. The administration has been such that cooperatives have been led to believe that their income was not subject to taxation."

At this stage, and notwithstanding all we have heard, do we understand that to mean that it is recognized that the cooperatives do have income? Is that what we are to understand? A. No, that is not implied in this statement.

Q. Then what does "income" mean there? A. Perhaps it should have been put in other language.

Q. That is just what I am afraid of. We have been waiting for this for so long I thought surely, with all the discussion we have had about income, we would have been pretty clear about that. That is not to be taken as an admission that the cooperatives have any income at all?

A. Here is what I mean, Mr. Parker. You take the accounting system of a cooperative, and you will find in most cases there is what you might call a net surplus for distribution. That is what is meant by this.

Q. All right. Then at the bottom of the page, under (a) you deal with something that has given me a great deal of trouble; that is, the control on the basis of one member, one vote. We are talking about the same old problem we had this morning. Are we to interpret this to mean that the one member, one-vote method is complied with through this delegate system-- A. Where it is not feasible--

Q. Wait until you get the question, please. Do we understand that this is to be read as though the cooperatives which function under the delegate system, such as I pointed out to you this morning, where different delegates represent different numbers of individuals, that that is a compliance with this type of cooperative you suggest here? Is that what we are to take from it? A. Well, generally speaking the first part of this paragraph 1 refers to smaller cooperatives.

Q. Why can we not stick to the point? I am merely trying to call your attention now to the fourth line from the bottom, giving the definition of a cooperative. You say it is one that --

"(a) is controlled by its members, directly or indirectly, on the basis of one member, one vote." Do we understand that this recommendation is made on the basis that the delegates representing a variable number of individual members -- that this type of voting comes within your definition?

THE CHAIRMAN: The word "indirectly" is obviously designed for that purpose, I should think.

MR. FRANCIS: That is the whole point.

BY THE CHAIRMAN:

Q. What do you mean by "indirectly", Mr. Good?

A. This question of democratic control in the delegate system is a very complicated one.

Q. Yes, but what does "indirectly" mean? A. It means through delegates.

Q. Would you mean by proxy? A. Oh, no.

Q. That is indirect? A. No.

Q. Then what does it mean? It means delegates?

A. Yes. Certainly proxy voting -- well, there are different

kinds of proxy voting, but unlimited proxy voting is debarred.

BY MR. ARNASON:

Q. You mean by delegates, in this recommendation?

A. Yes.

BY MR. PARKER:

Q. You say:

"We submit that the income of a cooperative defined as follows should not be taxable."

Then you go on and say what a cooperative is. Then we have a definition in the alternative. It is either that thing described in paragraph 1, or it is that thing described in paragraph 2. We have an alternative definition of a cooperative; is that what it amounts to? Or are there to be two kinds? A. No. The reference is to federations of cooperatives and the larger groups of subsidiaries. I would say, generally speaking, paragraph 2 included federations and subsidiaries.

Q. That is what that is intended for? A. Yes, that is what it is intended to cover.

Q. And I take it in your specific amendments that the fifty per cent has been modelled after the American system. Is that where you got that idea? A. Perhaps, to some extent.

Q. Just how did you arrive at that figure? A. I do not know. It seemed a fair thing. There has been a great deal of discussion as to where we should make the cut-off line.

Q. All right; I was just wondering if perhaps that is where it came from. You have already explained why you would take twenty per cent of the total volume of business rather than twenty per cent of the members' business? A. Yes.

BY THE CHAIRMAN:

Q. I take it that the payment or allocation would be dealt with on the same basis? A. With the understanding that it is reported, if it is taxable income in the hands of the individual. Our information was that the present law requires that; but that is a fundamental understanding.

Q. But you say, "periodically pays or allocates," so there is no distinction? A. We see no distinction in practice providing it is reported.

Q. Is there any distinction in principle? You say, "in practice" ? A. No. When I refer to the practice, the difficulty arises from the fact --

Q. I know the difficulty; I know why allocation is resorted to, but I say is there no distinction to be made between payment and allocation? A. We make none in principle.

BY MR. NADEAU:

Q. Do mutual insurance companies come under the scope these limitations? A. There were no representatives of mutual insurance companies present, as far as I recollect.

BY MR. PARKER:

Q. They are not members of your union, are they?

A. No. Some of them, I think, have collaborated provincially, but they are not yet in the National Union.

Q. This has not been submitted to them? A. No.

BY MR. ARNASON:

Q. Mr. Good, in connection with paragraph 2 on page 2, you say in clause (a) -- "is controlled by cooperatives." Do you mean subsidiaries? A. That might be a subsidiary controlled by cooperatives.

Q. I assume that is what you mean. A. It might be a federation.

Q. But suppose it is a subsidiary. Are we to understand that if a cooperative has a subsidiary which is controlled by the ~~cooperative~~, that the subsidiary itself should also comply with the provisions set forth in your recommendations; in other words, that the subsidiary should also be organized and operate on a cooperative basis?

A. I would say so.

BY MR. VAUGHAN:

Q. At the top of page 2, in the first paragraph, you use the word "necessary" in connection with reserves?

A. Yes.

Q. Would you make any comments as to what the committee had in mind in the use of the word "necessary" there?

MR. PARKER: Perhaps we could put it in this way; as to who is to be the judge as to whether they are necessary or not. Is that what you mean?

BY THE CHAIRMAN:

Q. Are those statutory or discretionary reserves, when you refer to them as necessary?

A. We found it impossible to get a formula which could apply to all the different types of cooperatives; and the way it is now, it is at the discretion of the minister in the matter of negotiation between the minister and the organization.

BY MR. ARNASON:

Q. Perhaps I can help you. Do you think the word "necessary" there connotes reserves designed to guard against the impairment of capital only? Is that one method of ascertaining it?

A. Yes, I would say that was the general idea. It would not apply to new operating capital, you see; that could not come under it.

BY MR. VAUGHAN:

Q. Would those necessary reserves have any relation

to the allocations mentioned above, or are those reserves which have just been retained in the cooperative?

A. Well, our opinion was that in respect to a particular cooperative, there is a reserve which is necessary for the continuity of the enterprise, for stability against disaster.

Q. That really has no connection with the allocation mentioned above? A. No, I do not think so.

Q. In that same paragraph you say:

"Patronage returns to non-members may be paid or allocated at a lower rate than to members."

What happens to that difference? Does that go to the members, or where does it go; and is it taxable? A. Well, that is a question that is very difficult to answer. The patronage returns under provincial law are to some extent mandatory; they must be at the same rate, and some of the provinces allow different rates. I would not prepared to state my opinion on that point.

Q. Then going back to the first page you say in paragraph 1 that a cooperative is --

"An association of individuals incorporated or unincorporated, with or without share capital, who are united to satisfy their needs as producers or consumers and which for that purpose engages in any enterprises or performs any services for its members."

As I read it, this is just confined to the satisfying of their needs. Supposing the cooperatives go beyond that; what happens? Are they not qualified as cooperatives, or what? A. I think that is the fundamental purpose of the cooperative, to satisfy their needs either as producers or as consumers; and I cannot envisage any going beyond it.

Q. Of course needs might be just enough to provide the necessary living, and the cooperative might go far beyond that into the manufacturing and processing, and it might make considerable profit or saving which would be over and above the actual needs.

A. You are not making a distinction between material needs and other needs, are you?

Q. All I am referring to is material needs? A. There is no intention of limiting this to material needs, food and clothing and things like that. There may be other needs which could be legitimately satisfied.

BY THE CHAIRMAN:

Q. Business needs? A. Yes, and spiritual needs, recreational needs.

BY MR. VAUGHAN:

Q. No, I was not attempting to place any limitation there; but it is quite conceivable that in time, through the manufacturing and processing that may be done by a cooperative, they would make profits something like the corporations make to-day, and those profits will provide an income over and above what might be considered actual needs?

A. Well, putting it in a general way, we have no desire to suggest, and do not suggest, that cooperatives which partake of the usual practices of the joint stock corporation, in making certain returns from business with outsiders-- we think they would be excluded.

Q. This limitation to engage in business to satisfy the actual needs of the members --.

BY MR. PARKER:

Q. Perhaps that was used in contra-distinction to "wants"; would that be it? A. No, not wholly, because

after all if you were to try to distinguish between a need and a want it would be very difficult.

MR. VAUGHAN: That is what I do not understand.

BY THE CHAIRMAN:

Q. Then I take it this is really the result; that you are satisfied with the present condition and the practice under the law, and you want the commission just to put more teeth into it, so that condition will be maintained. That is right, is it? A. The present practices, do you mean?

7 Q. The practice of not taxing the cooperatives. You are satisfied with that, provided we make it clearer under the law that that is the case. That is your recommendation in brief? A. That is, if organizations can conform to those principles, we think they have no taxable income.

Q. I know that. You are satisfied with the law as it is, provided it is made more clear, in accordance with the practice. That is really what you say in these recommendations, because there is not a concession made here to your so-called competitors; not one, even as to investment income. You make no concessions? A. Well, that raises the question as to whether or not our competitors have a grievance.

THE CHAIRMAN: We will not discuss that now.

BY MR. ARNASON:

Q. Just following that along a little further, you use the word "members"? A. Yes.

Q. Just in connection with what the chairman asked you about the clarification of existing legislation, is your idea that there should be some definition of what constitutes a member? A. Well, I personally think there should be, because we have been in difficulties about

I think our feeling is that the commission probably is

competent to set out some sort of qualification for membership.

Q. I take it that is one of the implied recommendations?

A. Well, we have not set out any description of what constitutes a member, but certainly if you talk about member business and non-member business you have to have some qualification. We have not made any recommendation about qualifications for membership.

BY MR. NADEAU:

Q. I think your definition, that you are proposing, of a cooperative should apply not only to the farmers' cooperatives but to any kind of cooperative whatsoever?

A. Quite so, sir.

BY MR. VAUGHAN:

Q. In the second to last paragraph on page 2 you make a recommendation which I should like to mention. I will read the paragraph:

"If a cooperative does business with non-members in excess of 20 per cent of the total volume it shall not be exempt from income tax -- "

This is the part.

"in respect of income derived from such excess."

A. Yes.

Q. As the law is now, if more than 20 per cent of the business is done with non-members, the cooperative is disqualified altogether? A. Yes.

Q. According to this wording it would be disqualified only as far as that excess business would go?

A. That is right. The present section, 4(p) draws the line in this way. If the cooperative is within the 20 per cent exemption, they are completely exempt on everything. If they are over that, they are taxable

on everything. We have suggested a change here. If they are below 50 per cent of member business, then they are out. If they are between 50 per cent and 20 per cent, they are taxable on that excess between 20 per cent and 50 per cent. Over the 20 per cent they are taxable in theory, but whether it is worth while is a question into which so many factors enter that I raise it not as a principle but in the matter of calculation.

Q. That varies quite a bit from the present provisions?

A. Yes, it changes the basis.

MR. FILMORE: I do not want to take up time to deal with these recommendations now. Nor do I want to take up time to get the names of the cooperators who were present at that meeting in April. But I respectfully suggest that the names of the organizations which were represented at that meeting should be filed as part of the public record. In the second place, I understand from the questions which have been already asked and answered that these recommendations are the recommendations of this sub-committee of eight or ten, and that they have not been passed back to or approved by any body of cooperatives.

MR. PARKER: I think perhaps Mr. Francis will undertake to give us a list of the names.

BY MR. VAUGHAN:

Q. There is one very important question, I think, at which we have not arrived yet. If this cooperative business increases until, we will say, it amounts to 50 per cent of the total volume of the country, naturally the tax liability is going to go down very definitely. The business of the private enterprises will be less, and the business of the cooperative will be more. When that time comes, what have

you in mind with regard to raising the necessary revenue for the national treasury? A. You mean if the corporation income tax should fail?

Q. No, I mean if the business changes over from the present type, call it the ordinary business, to cooperative business. The ordinary business will not be there to tax. If the cooperatives are exempt, then there is going to be a great shortage in the national revenue, and how will that be made up? A. That is very difficult to answer. It is very hard to make any general pronouncement on methods of taxation. I have my own opinions, but I do not want to put them forward, in regard to the general basis of taxation. I do not think it is pertinent to the present inquiry, although I would be prepared to do so if it were any use. I think you are quite right in saying that the basis for the taxation of corporate income would, to some extent, shrink under the situation as you present it.

Q. Is it not quite obvious that when that time comes, cooperatives would have to be taxed? A. Oh, certainly there would have to be some other system of taxation, I presume. This whole question of taxation has to be faced some time or other.

Q. You have no particular method in mind? A. Well, personally I have, but our cooperative movement has not gone into that matter. We have not faced the whole question of the incidence of taxation which might eventually be tied up with this thing; but we do not regard the eventualities, as you picture them, as being in the near future. A great many things may happen before the cooperatives have any large percentage of Canadian business. As yet they have not; they have a very small percentage of the Canadian business.

Q. The time when they may have 50 per cent of it is perhaps somewhat distant, but at the rate the cooperatives are growing they will increase -- A. You mean of the total Canadian business?

Q. I think they are bound to increase, probably more than the business of the corporations will. A. I wish I were that sanguine. I am not looking for anything like that at all.

Q. You do not think they will increase more than the business of the corporations? A. That within the foreseeable future, in a short time the total business should swing over from ordinary joint stock corporations to cooperatives, to the extent that one would have 50 per cent of the total? No.

BY MR. ARNASON:

Q. Can you visualize any large scale development of cooperation in the foreseeable future, Mr. Good? A. Not suddenly. I look to see a slow development in certain areas. For instance, in connection with some of our rural areas, I can foresee a fairly steady development in those areas. But if you take things that occupy our big cities at the present time, I cannot see that we are going to get a foothold there for a long, long time. In fact it may be that it would be policy on the part of the cooperatives that have the distributive machinery to make a deal with the manufacturing enterprises set up on the joint stock basis. In fact that has been under consideration already. Then you would have what we may call a mutually beneficial tie-up between the joint stock company and the cooperative.

BY MR. ARNASON:

Q. Just one more question in connection with this second to last paragraph on page 2, referring to non-member business.

Do I understand you to say that it was the opinion of your committee that this figure which you suggest here might be put forward on the basis of something that was administratively possible? A. Yes, that is it. We are not basing it on principle. I think I stated quite distinctly that when the bill was under consideration in 1930 Mr. Dunning stated the reasons for this 20 per cent, which I think was taken from the United States, although I am not sure about that. I know the reasons were apparent in the debate in the House, and they were reasons of expediency, as to whether or not it was worth while bothering, because there is a great deal of difficulty about calculations.

Q. I understand you to suggest, then, that this does not imply any approval of the idea that any non-member business should necessarily be exempt? A. Oh, no. I think there is general admission that any earnings on non-member business falls into the category of the business of the ordinary joint stock company, and is taxable.

MR. STEER: If you will indulge me for one or two questions, sir?

THE CHAIRMAN: Very well.

BY MR. STEER:

Q. I refer to page 1 of your recommendations, where I read:

"(b) if it is incorporated with share capital, restricts the rate of interest thereon to not more than six per cent per annum."

That is on the share capital? A. Yes.

Q. That interest is usually called a dividend?

A. Yes, it is sometimes called a dividend.

Q. And you make no distinction between interest and dividend? A. Not here. No.

Q. And the same applies to page 2, in line 6, where you say:

"-- after payment of all costs, expenses, interest, if any, to shareholders --"

Normally we would speak of dividends to shareholders?

A. Yes.

Q. There is no distinction? A. There is no distinction. We look at it as interest.

BY MR. PARKER:

Q. There was one question I asked previously, Mr. Good, which was deferred to this time, I believe. I am not quite sure that I recall exactly the form in which the question was put; it is in my mind, but I was asking you whether you agreed with the suggestion that had been put forward in certain centres that, assuming cooperatives were taxable, had income that was taxable, you felt that because of their social and educational and cultural influences, which they exercised in the community in which they functioned, that would be a ground for seeking statutory exemption for that income. I think that was one of the questions I asked. Would you care to express your views on that?

A. I think I stated this morning that I thought a very good argument could be built up for special treatment of cooperatives by the state, but we are not taking that position.

Q. Then you do not agree with those cooperatives who expressed themselves along that line before this commission? A. I think there is a good deal to be said in favour of that, but the cooperative movement --

BY THE CHAIRMAN:

Q. You are not taking that stand, so I do not see that we need go go into it.

A. No, we are not.

Q. That is, the arguments along that line are not exactly relevant to your contention? A. Not as far as these recommendations are concerned.

MR. PARKER: There may have been another question, but for the moment it slips my mind.

MR. FILIMORE: Will that list be filed?

MR. FRANCIS: I should be very glad to file it. I understand it is the April meeting to which my learned friend refers?

MR. PARKER: Attended by representatives of some forty organizations.

MR. FRANCIS: And my learned friend wants the names of the organizations represented?

MR. PARKER: Yes.

BY MR. VAUGHAN:

Q. I take it that under clause (c) all the income or saving will be disposed of, either by allocation or by retaining some of it in reserve? A. Yes. There is an obligation, I think. You see, it refers to "all moneys remaining in its hands." I think it is stated in those terms.

Q. That being the case, is there any taxable amount there at all? If it is all either allocated or placed in reserve, what is left? Some time ago a question was asked about the reserves, as to whether they should be subject to tax. A. Perhaps I can answer that in this way; that if a cooperative retains certain moneys that were more than sufficient for the necessary reserve, and does not allocate or pay it out, then they would not fall within this definition.

Q. Then would that mean that organization would not

be a cooperative? That would compel all cooperatives to dispose of their income in these ways? A. We think so, if they want to come under this definition.

All we ask is that those who conform to this definition be regarded as immune from taxation; not that there is any special privilege involved, but because they have no taxable income.

Q. Then is there some inconsistency in your later clause, where you refer to income? I have in mind the second clause from the last, where you say:

"If a cooperative does business with non-members in excess of 20 per cent of its total volume it shall not be exempt from income tax in respect of income derived from such excess."

That would indicate that there would be some income?

A. Yes, and they would be taxable on that. That is a modification of the complete immunity that is envisaged in the definition. We say in effect that all who can come within the terms of this definition should, by the very nature of their business and operations be immune from taxation. Those who are outside are taxable in part for certain reasons, and with regard to any legislative changes, those three riders at the end deal with that.

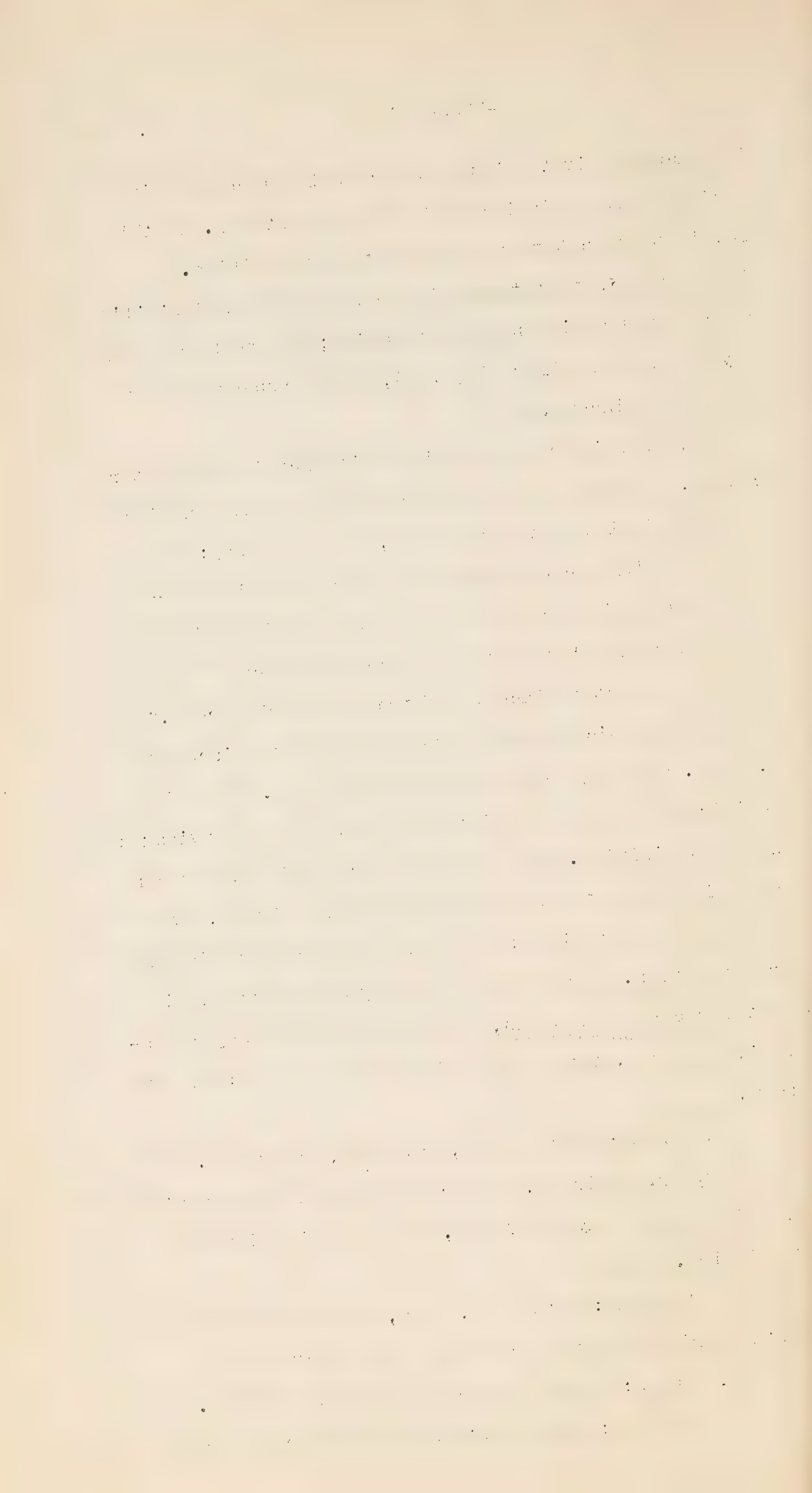
MR. PARKER: That is all, Mr. Good, thank you.

Now, Mr. Chairman, that completes all the material of which I have any knowledge, to be submitted to the Commission.

THE CHAIRMAN: I take it, then, that there are no further briefs or evidence to be presented?

MR. PARKER: I have no knowledge of any others.

THE CHAIRMAN: The question therefore comes up as



to when or if any argument is to be presented.

MR. PARKER: Exactly. My understanding is that Mr. Francis, on behalf of his clients, wishes to make an oral argument. I understand that Mr. Steer, on behalf of the United Grain Growers, wishes to make an oral argument.

MR. STEER: As far as my client is concerned, if all other arguments are to be submitted in writing, very well; we will do so. We should like, however, to reserve the right to make an oral argument if oral argument is to be permitted.

THE CHAIRMAN: That really means that if anybody Optates for an oral argument, everyone else has to be advised.

MR. STEER: As far as we are concerned, I respectfully suggest that we should have the right.

THE CHAIRMAN: Yes, undoubtedly. If one oral argument takes place, everyone has the right to the same thing, whether or not we stay here all summer.

MR. PARKER: It is quite obvious that Mr. Francis, although he can speak for himself, wishes to have a chance to summarize. He has a very large field to cover, and perhaps it would be more effective if he did it by addressing the commissioners than otherwise.

THE CHAIRMAN: And I understand the insurance wing also wish the same opportunity.

MR. PARKER: If there was going to be any oral argument I think they wanted the privilege of coming. They do not want to be shut out; so it looks to me --

THE CHAIRMAN: Then as far as possible all the other important and leading interests, as it were, should be advised at the same time.

MR. PARKER: With this general understanding, I think,

that, just as Mr. Francis and his clients opened the hearings, I think he should have the right, if he desires it, to close the debate.

THE CHAIRMAN: I quite agree.

MR. PARKER: And I think in respect to the three pools, perhaps the same thing should apply. If Mr. Howard and his associates should care to address oral argument -- although I understand they do not wish to do so -- it might be understood that they will address the commission before the pool representatives make their addresses, and I think the same thing should apply in relation to the insurance field, if that meets with the approval of everyone.

THE CHAIRMAN: As far as a date is concerned, I do not quite see how we can fix one now.

MR. PARKER: I suppose we can only say that it will be at least six weeks, and that as soon as possible a definite date will be set and everyone will be notified. I do not see how we can go very much further than that.

THE CHAIRMAN: Then I declare the business before the commission concluded, for the moment.

The Commission adjourned.

The first part of the paper is devoted to a general discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The second part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The third part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The fourth part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The fifth part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The sixth part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The seventh part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The eighth part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The ninth part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom. The tenth part is devoted to a detailed discussion of the problem. It is shown that the problem is of great importance in the theory of the atom.

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ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XXXII

PLACE Ottawa

DATE July 25, 26, 27, 1945

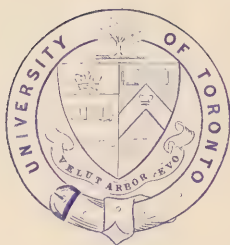
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ROYAL COMMISSION ON CO-OPERATIVES

Ottawa, July 25, 26, 27, 1945

VOLUME XXXII

(Pages 7758 - 8124)

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ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative positions of persons engaged in business directly competitive therewith, met in Ottawa on Wednesday, July 25, 1945, for the hearing of oral argument.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON

G. A. ELLIOTT

J. M. NADEAU

J. J. VAUGHAN

Commissioners

Eugene T. Parker, K.C.

Counsel

Major H. D. Woods)
J. A. Chapdelaine)

Associate
Registrars

Colonel G. W. Ross

Executive Secretary

APPEARANCES:

W. B. Francis

R. H. Milliken, K.C.

M. M. Porter

G. H. Steer, K.C.

W. B. Scott, K.C.

Prof. J. L. McDougall

Group of Co-operative
Associations
Saskatchewan Co-operatives

Alberta Wheat Pool

United Grain Growers

Canadian Chamber of Commerce

Canadian Retail Federation

O R A L A R G U M E N T

The Commission met at 10 a.m.

THE CHAIRMAN: What is the situation, Mr. Parker?

MR. PARKER: As far as I can ascertain, we have four or five parties who wish to make oral argument. Included in that list is the Retail Merchants' Association, which I believe is represented by Professor McDougall. There is also a short letter prepared by the Canadian Chamber of Commerce, represented by Mr. Scott. He has requested that he be allowed to read this letter and I understand it will take only a minute or so. There is also a request from the United Grain Growers, represented by Mr. Steer, and there is to be an argument by Mr. Porter on behalf of the Alberta Wheat Pool. I suggest that we begin by calling on Professor McDougall to present his argument.

THE CHAIRMAN: Had we not better first dispose of the letter which Mr. Scott wishes to read?

Argument on behalf of
The Canadian Chamber of Commerce

MR. W. B. SCOTT, K.C: May it please the Commission, I appear for the Canadian Chamber of Commerce with instructions to read the following letter:

"To the Chairman and Members of the
Royal Commission on Co-operatives.

Gentlemen:

We appreciate the invitation to appear at the final hearings of your Commission.

We wish to state that the Executive Committee of the Chamber, in noting various submissions made to the Commission, are of the opinion that the Conclusions and Recommendations set out in the Brief of The Canadian Chamber of Commerce, would

provide a just, fair and equitable basis for the solution of the problems with which your Commission is dealing under P.C.8725.

You will recall that our Recommendations (which were accompanied by a Supplementary Statement of the Executive Committee) read as follows:-

"The Canadian Chamber of Commerce believes that in the public interest a just, fair and equitable basis for the application of the Income War Tax and the Excess Profits Tax Acts to all persons carrying on business whether organized as corporations, cooperative or mutual companies and associations should be upon the following principles, and the Chamber recommends:

a) That all persons carrying on the same or similar businesses in Canada be subject to taxation on the same basis under these Acts and be subject to the same administrative rules and regulations in computing what shall constitute taxable profit.

b) That the double taxation of income paid out as dividends which the present Income War Tax Act imposes on all persons subject to taxation thereunder be eliminated.

c) That until such double taxation of all income paid out as dividends is eliminated, the "Patronage Dividends" of co-operative or mutual companies and associations be dealt with in the same manner as all other dividends which are not now exempt from taxation as income of the payor.'

"We believe that if the desired information can be obtained from the Department of National Revenue relative to the application of the Income War Tax and Excess Profits Tax Acts to the growth of co-operatives and the number of businesses that have changed over in recent years to the co-operative form of doing business, such information would confirm such statements in our Brief as were based merely on general knowledge

Mr. Scott
Prof. McDougall

and belief. It would seem to us, moreover, that such confirmation is available only through the Federal Department concerned.

"In conclusion, we believe that the results of the important work of your Commission will have a significant influence on the future of equitable taxation in Canada. The hearings have served to arouse public interest and a nation-wide expression of views on this important subject. We trust that your deliberations will provide the Government with material and recommendations upon which an equitable solution may be found in the public interest.

Yours faithfully,

H. Crabtree, Chairman.

D.J. Morrell, Secretary."

Argument on behalf of
The Canadian Retail Federation

MR. PARKER: Will Professor McDougall now present his argument?

THE CHAIRMAN: Before you begin, Professor McDougall, may I say that the facts are pretty well within our knowledge now, and I would suggest to you, as to other counsel, that only such features as you insist upon particularly be drawn to our attention. On the minor points we do not need further argument.

PROFESSOR JOHN L. McDOUGALL: I trust I have confined myself to those points which I regard as major. I have tried to by-pass those which seem to be almost of no importance or at any rate of minor importance. I appear as Counsel for

the Canadian Retail Federation, which has merchant members in all parts of the country and also has affiliated with it a number of national and provincial retail trade associations, the largest of which is the Retail Merchants' Association of Canada, whose members are largely independent merchants in all the various distributing groups in every province in Canada. It is, therefore, broadly representative of the whole distributive interest of this country. It was constituted to speak for that group and, as such, it is represented here this morning.

Retail merchants are always exposed to competition of various kinds. For any purchase beyond the smallest amount the customer does not merely purchase; he (or she) "shops". A shopper compares the prices and the values in the various available outlets. Except for a few convenience goods on which prices are uniform and quality is standard, purchases are made after the market has been canvassed. The merchant whose wares and whose prices cannot stand up to this daily testing soon finds his sales shrinking and his net profits disappear.

Nor is the competition between stores selling like products the only pressure which each merchant must face. The consumer is free to spend his income on those things which seem good to him. How much shall be spent on clothing and how much on house furnishings, for example, will depend not only on their relative prices and qualities but also to some extent on the prices and qualities of all the other goods available in that market. In greater or less degree, every merchant is in competition with every other within the same market area for his share of the consumers' dollar.

The greater the population in any trading area, the more intense does the competition between merchants within it tend to become. In a country so large as Canada it is obvious that competition cannot be equally acute in all of them; but even in those in which competition appears to be least, it is very much stronger and more pervasive than appears at first sight. For all staple commodities the mail order catalogue provides a basis of comparison which is continuously applied to local prices. Daily newspapers with their detailed advertising of prices provide a second check as between trading areas. Finally, the population of Canada is very mobile. As people shift for work, for pleasure and for shopping, there is a continuous interplay of competition between trading areas which fifty years ago were largely separate but which are now very closely bound together.¹

It is because, for these reasons, competition is becoming increasingly severe that retail merchants as a body are unable to view with equanimity the rise of competitors who are, by the current phrasing and interpretation of the Income and Excess Profits Tax Acts, totally excused from one of the heaviest burdens which they themselves are required to bear. The retailer cannot continue to carry this tax load and compete against the untaxed distributor without disastrous consequences to his business and to his financial solvency. And it is because of the urgent importance of this threat that my clients have felt compelled to participate in this final argument.

Nor is it the general position only which is a spur to

¹. Wartime limitations upon the use of private passenger cars have, to some extent, reduced this inter-market competition; but for purposes of this Commission's report, that may be taken as a condition too transitory to be considered.

present interest in this matter. The primary pressure of co-operative competition is at present localised upon the stores in the country districts. Therefore, the merchants initially affected are those in the country general store group. In 1941, 84 per cent of all those stores reported sales per store of less than \$30,000. Over 98 per cent of all country general stores are independently owned. With negligible exceptions these are businesses run by working proprietors. The capital for their formation and expansion was not borrowed but accumulated out of operations, and their owners rely upon such accumulations to offset losses in the bad years as and when they come.

The ultimate consequences of the expropriation of the owners of small businesses by unequal taxation are so serious that it is a public duty to protect against it. It is, therefore, not only as merchants but also as a responsible body of citizens that the Federation approaches this matter and concentrates its attention upon the final direction to you, namely, to report on "and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest." 2

The argument which will be made herein will not attempt to traverse the various points raised by all those who appeared on behalf of the various parts of the co-operative movement. It will, rather, be addressed to the principal arguments which were advanced by the leading theorists of the co-operative philosophy and upon which ideas the whole movement must be presumed to rest. It will then go on to consider the recommendations for the amendment of the law which were submitted by Mr. Good on behalf of the Co-Operative Union. It will attempt to examine those ideas and those recommendations, particularly as they affect retail merchants, but the approach will not, we

2. P.C. 8725, November 16, 1944.

trust, be a narrow one. It will close with one specific recommendation.

The major interest of the Federation is in the legislation which will result from the work of this Commission. It is hoped that that legislation (and the administrative rules under which it will be applied) will produce a reasonable measure of equity as between the various taxpayers of this country and will encourage the highest possible level of production within it. But this concentration upon the future should not be construed as an expression of willingness to acquiesce in any forgiveness of taxes which are due from co-operatives and which have not yet been paid. No group, no matter how large, should receive any concession which is not equally afforded to every citizen. This point is set to one side, not because it is unimportant but because it is difficult to find any ground upon which the contrary position could be defended.

Merchants exist to serve the public. Upon the skill and intelligence with which they fulfill their daily tasks, depends a very large share of the economic well-being of the great body of consumers. In the final analysis, the physical production of goods depends upon the orders which are transmitted through merchants to manufacturers, farmers and other primary producers.

It is not from any exaggerated idea of the obligation due to merchants that the Federation speaks this morning. It is because they feel that, in the efforts which co-operatives are now making to perpetuate their exemption from income and excess profits taxes, certain basic facts stand in danger of being lost to sight. The public, as a whole, cannot gain from tax-exemptions granted to any one part of it. Exemptions

are no doubt very welcome to those who receive them; but the burden from which some are relieved falls with a redoubled weight on the rest of the economy. A net gain is impossible; and there is a probability which rises almost to certainty that, on balance, there is a net loss. Because of the additional weight of taxation which falls upon the remainder of the economy, some production which might have taken place is stifled by the additional weight of taxation placed upon it.

The public as a whole is the chief gainer from the more efficient conduct of production and distribution, and merchants now in business could have little ground for complaint if retail co-operatives, though carrying an equal tax load, were able to distribute more cheaply because of their greater skill and efficiency.

But the Federation is fulfilling a public duty (albeit moved by an intelligent self-interest) when it protests in the name of its members against the growth of an alternative type of distribution, powerfully aided by complete exemption from income and excess profits taxes and which is, therefore, not called upon to reach or to maintain the same level of operating efficiency which their tax-paying competitors must hold in order, not to expand, but merely to remain in existence.

An Examination of Certain Leading Ideas of the Co-operative Movement.

The leading ideas of the chief theorists of the co-operative movement, to which attention will be directed below, are:--

1. The reasons why members not only join a co-operative but remain in it for years as actively supporting

members.³

2. The assumption that the whole of private business is so completely under the influence of a few dominant large corporations and is so riddled with monopolistic and quasi-monopolistic influences that it can no longer be trusted to organize the economic activity of the community effectively, nor to price its products justly, nor to pay to the labour which it employs the full value of its share of the joint product.⁴

3. The third idea is that there is a segment of the Canadian population which is, in some special sense, "the people", and is, in some fashion never described, clearly marked off from the balance of the population. This balance is not described in detail but, since they are clearly excluded from "the people", they must be the profit-seeking predatory interests.⁵

³ It would be tedious to refer here to all the pages in the Proceedings at which this point is made by co-operators. One of the clearest is in the submission of the Ontario Co-Operative Union made by Mr. A. C. Savage, Secretary-Treasurer, especially pp. 2382 and 2390-95. The examination on this latter section by Mr. Elliott at pp. 2421-24 is so revealing that it is reproduced as Appendix 1.

⁴ Upon this point see the submission of the Co-Operative Union of Canada, through Mr. Good; Proceedings, pp. 2676-77 and 7717-20. See also the submission of Dr. Coady: "Modern business in all fields is trending toward monopolistic capitalism. This is not in harmony with the traditions of Anglo-Saxon democracy. It smacks of fascism." He then goes on to argue that, while great size is dangerous in corporations, it is completely innocuous in Co-Operatives. Ibid. pp. 4596-8.

It is upon these central ideas that the co-operatives have tried to erect a defence for their continued exemption from taxation upon their income. If they are not sound, that claim must fail.

Upon the first of these ideas there is both clarity and unanimity among all those co-operators who have discussed it. They all say that the whole end and purpose of the co-operative is to increase the economic well-being of its members. It is true that emphasis is also put upon the element of brotherhood which ought to bind the members to each other and to the association; but it is brotherhood in an economic venture. If it were otherwise, the co-operative would be merely another social or fraternal group and no taxation problem would arise.

But, in fact, the co-operative is an economic venture and not a social club.⁶ It is designed to improve the economic position of its members by making the element of brotherhood and mutual obligation explicit in the organization. That is their privilege if they so wish it. But it is clear that the object is just the same as that of the corporation to which men also contribute resources in the hope of receiving profit or gain from it.

5. This idea is very clearly stated by Dr. Coady: Proceedings, pp. 4578 ff. He seems to take it that education has in the past provided a "trapdoor" which enabled a "bright and vigorous few from among the masses" to escape from the lowly classes into the so-called higher professions; but the inference is that only a lucky few ever succeed in rising economically or otherwise and that those who remain are an undifferentiated mass. Neither assumption is justified. Those who remain do in fact vary in character and influence as well as in wealth; some at least of those who go succeed only in changing the form of their poverty. The fact of variation is universal.

How any particular economic body ought to proceed in advancing its members' interests is, under the law, a matter which the members may properly be left to decide.⁷ It may be through a dividend determined by the amount of capital contributed. It may be by the distribution of patronage dividends which constitute an overt and measurable distribution of trading profit.⁸ It may be that the members receive lower prices on the goods which they purchase and that there is no balance of profit to distribute at the end of the trading period. It may be that the advantage is taken in some other fashion. It may be a general advantage to the whole community, in which the member shares as a member of the community rather than as a member of the association, although no example may be cited in which this is the sole form of return. But there is surely something very curious in bodies of men who have come together with such a clear economic purpose in mind arguing that, because of the minor peculiarities of their association, it ought to be totally exempt from taxes upon its profit or gain.

6. See the definition of a co-operative. Father S. H. Levesque, "a free association of persons owning an economic enterprise (the emphasis is supplied) which they direct and control democratically for their own service and for the service of all." Proceedings, pp. 3534-5.

7. On this point at least I can agree with Dr. Coady, who says "The right of free association is a fundamental of Anglo-Saxon democracy. As long as people keep within the law they can do anything that they think good for their own development." Proceedings, p. 4593.

8. See Appendix I hereto in which that concept is very fully explored.

It is our contention that, whatever form the act of trading may assume, the profit or gain from such trading must be subject under the law to an equitable share of the taxation levied by the state. If the law is so drafted that a tax exemption is given, there is every reason to take advantage of it. But to lay claim to a continued exemption from taxation into the indefinite future, as the Co-Operative Union now does, is to ignore the obligations which lie upon the citizen.

The second of the ideas outlined above, namely that the whole of private business is so completely shot through with monopolistic influence that it can no longer be trusted to work justly or even to work at all, is one which is very often asserted. Since this submission is primarily concerned with retailing, we propose to prove that this is not true of the distributive trades,

The denial that monopoly influences in retailing are great absolutely is supported by an examination of the chief available evidence. Census figures on retail distribution are available only for the years 1930 and 1941. For the intervening and succeeding years a small sample is collected and the aggregate sales of the year are estimated from it. For any measurement of monopoly influence, the census figures are so clearly superior that they alone will be considered here.

If retail merchandising generally were falling increasingly into the hands of great monopolistic combinations, one would expect that the share of independent merchants in total sales would be slowly shrinking at all times and that this shrinkage would be very obvious in the eleven years from 1930 to 1941. If big business is so clearly of over-

powering strength, its proportion of total trade ought to grow most rapidly in such a period of intense economic disturbance when it should be able to take advantage of the difficulties of others.

In fact, nothing of the kind occurred. In the aggregate, independent stores had a bigger share of the total trade at 1941 than they had at 1930. At 1930, they had 80.7 per cent of the total; at 1941, 81.4 per cent.

This is not a freak result due to the overpowering influence of one classification of retail trade. All retail trade is, for the purpose of this classification, divided into sixteen major groups. For nine of these, comparable data is available for 1930. In seven out of the nine, the independents increased their proportion of total sales. In two only did it decrease.

The two in which the independents failed to hold their proportion of the total trade are combination stores (those selling both groceries and fresh meats) and shoe stores. In the other seven groups, the independents increased their proportion of total sales; in three of them, quite sharply. There is no sign of any growing concentration of ownership or control which would be necessary to support a charge of growing monopolistic influences.

This whole picture of variety within the merchandising field is not something special to this particular decade. If the measurements were available it could be demonstrated for previous decades and will certainly be done for this one when the census results of 1951 are available.

TABLE 1.^a

Percentage of Aggregate Retail Sales Made
by Independent Stores in Canada 1930 and 1941

Type of Store	1930	1941
Grocery stores	71.4	84.8
Combination stores	66.8	55.7
Meat markets	b	93.5
Country General Stores	95.7	96.2
Variety Stores	6.4	13.1
Filling Stations	75.2	91.4
Men's & Boys' Clothing and Furnishing	85.5	87.6
Family Clothing Stores	b	81.4
Women's Apparel and Accessory Stores	b	86.6
Shoe Stores	77.3	62.7
Lumber & Building Material	b	74.4
Furniture Stores	b	76.5
Household Appliances and Radio Dealers	b	59.3
Restaurants, Cafeterias and Eating Places	80.5	88.2
Drug Stores	81.1	81.3
Tobacco Stores and Stands	b	83.6
Weighted Total	80.7	81.1

a. Dominion Bureau of Statistics, Retail Merchandise Trade in Canada, Calendar Year 1941 (Ottawa: mimeo 1944), table 13.

b. Comparable data not available.

We live in a dynamic society. The only thing on whose persistence we can rely is change. At one time, one form of economic organization seems likely to sweep the boards. For a time it grows rapidly. Then the forces which gave it the advantage grow weaker and even disappear and it is, in its turn, put upon the defensive. There is an ebb as well as a flow.

Those who demand that the different forms -- as, for example, the independents and the chains -- shall be of an unchanged relative power decade after decade are, in fact, demanding that our society should be completely static, without change of any kind and therefore without progress. This ebb and flow of relative competitive power is the final proof that competition is the ultimate controlling factor in every sector of the distributive trades.

Those who argue that the few largest stores are so completely in a class by themselves that they need not consider their smaller competitors deny that there is any continuity over the whole range of stores. This assertion is completely disproved by Table 2 and Graph 1 which follow. They show quite clearly that there is a sharply defined concentration of stores in the sales range \$5,000 - \$20,000 yearly. The number of stores drops away to either side of that central position. The graph shows that, when sales are plotted logarithmically, the distribution is approximately normal. There is no sharp and sudden break. This is a continuous distribution. In other words, the distribution of stores upon the basis of volume of sales is merely another example of that basic fact of variation which is true of all living things. The failure to see this picture in its true proportions and as a whole is at the bottom of most of the allegations of monopoly control.

I call attention particularly to Table 2, "Percentage Distribution of all Retail Stores in Canada by Volume of Sales, 1941."

MR. ELLIOTT: I understand it to be the contention of the co-operatives, among other things, that where rigid dealers' margins exist there is a tendency to increase the number of

outlets if these margins are fairly high and thus to raise costs of distribution. You are arguing that there has been an increase in the number of outlets. Does your argument later touch this particular contention that I have mentioned?

PROFESSOR McDOUGALL: No, it does not.

MR. ELLIOTT: That is one of the points that seemed to me to be important, and I was wondering whether you had anything to say on it.

PROFESSOR McDOUGALL: My own impression is that the rigidity of the margins is much more apparent than real. The difficulty is always that of policing a business of that kind and I know of almost no trade in which the policing has been done effectively. You have such things as the so-called special deals whereby additional quantities are sold at a basic price, so that I am not greatly impressed by it -- not so much impressed as the appearance would seem to warrant.

MR. ELLIOTT: Thank you very much. I thought that possibly that was covered in your argument.

PROFESSOR McDOUGALL: No, I have not covered it explicitly.

Table 2^a

Percentage Distribution of all Retail Stores in
Canada by Volume of Sales, 1941

<u>Stores with a Volume of \$</u>	<u>Percentage of Total Number of Stores</u>
Less than \$1,000	6.6 b
\$ 1,000 - 1,999	7.3
2,000 - 4,999	17.7
5,000 - 9,999	20.1
10,000 -19,999	20.2
20,000 - 29,999	10.4
30,000 - 49,999	8.8
50,000 - 99,999	5.5

\$ 100,000 - 199,999	2.1
200,000 - 499,999	1.0
500,000 - and up	0.3

Total 100.0

- a. Dominion Bureau of Statistics, Merchandise Trade in Canada, Calendar Year 1941 (Ottawa: Mimeo, 1944) table 6.
 - b. Some stores reported their profits rather than their sales; others were in operation for only part of the year. For these reasons this category is certainly too large. The same defect may also affect those immediately adjacent to it.
-

Success in distribution is as much the result of management skill and of continuous attention to a multitude of petty details as it is of the control of adequate capital resources. If it is present, loan-capital will tend to seek out its possessor. He will be able to lease larger premises and to get more credit than will a merchant who is less competent. Such a merchant also accumulates owned-capital by the reinvestment of earnings to provide a base for still larger operations. As a matter of policy he will reduce his living expenses and convey a very large part of this year's income into next year's capital.

Cutting off that normal source of new capital has cumulatively serious results. At present levels of income and excess profits taxes, the co-operatives are the only merchandising firms which are allowed to grow. The smaller men who would ordinarily be expanding their operations are held down because they are now cut off from their normal source of capital for expansion; but co-operatives, being tax-free, are

able to expand all the more rapidly because they have money for expansion and because most of their potential competitors have not.

Where there is merchandising skill and a willingness to work, lack of capital may slow down growth but it cannot stop it. Abundance of capital combined with mediocre capacity usually brings slopping merchandising for a year or two and ultimate reorganization.

Managerial skill is very important, but it is also intangible. It cannot be objectively measured. But when one deals with aggregates, variations in it tend to offset each other and the amounts of labour and of capital employed can be taken as measuring the input of productive effort. This has, in fact, been done by Professor Paul Douglas of the University of Chicago who has, for nearly twenty years, been investigating the manufacturing statistics of the United States, Canada, Australia and New Zealand to see whether that hypothesis will produce reasonable estimates of the net value of manufacturing production for the various industries.⁹

MR. ARNASON: On page 12 of your written argument you say:- "At present levels of income and excess profits taxes, the co-operatives are the only merchandising firms which are allowed to grow." Then on page 9 you show the

9. See his Theory of Wages, (New York: MacMillan, 1934).

It was followed by a whole series of articles in the learned journals, of which the last was, Patricia Daly and Paul H. Douglas, "The Production Function for Canadian Manufactures". Journal of the American Statistical Association XXXVIII (1943), 178-86. The first two footnotes of that article list the intervening studies.

increasing proportion of the retail trade, so far as the independent stores in Canada are concerned, as between 1930 and 1941. I was wondering whether, later on in the statement you are reading, you give anything in connection with co-operatives doing business similar to those that are cited on page 9.

PROFESSOR McDOUGALL: No, I do not. The contradiction you see is apparent only, and not real. If one had to deal only with the level of the 30's, the problem would be less urgent.

MR. ARNASON: You have no figures showing what has been happening since 1941?

PROFESSOR McDOUGALL: The only figures are those of the Department of Agriculture.

MR. ARNASON: You have no figures to show what has been happening in the retail trade generally during the war period?

PROFESSOR McDOUGALL: No. The Department of Agriculture reported only to 1943.

It did, in fact, prove out brilliantly in every set of national statistics. The relative amounts of labour and capital do explain the variations in net value of production as between the various industries.

Therefore, the same hypothesis can be applied with confidence to the field of distribution because both manufacturing and distribution are inter-connected and labour and capital; flow back and forth between them. I should have liked to do the same for merchandising, but the figures are not available and therefore one has to proceed by analogy.

Part of the capacity of a co-operative to serve its members and, by so doing, to earn profits which are later to be distributed as patronage dividends, is due to the employment of capital. It is not the result of unusually good

management, nor of a surpassing member loyalty, nor of any other factor. It is the hope of sharing in the dividend which produces the loyalty and not the reverse. The amount of capital employed is pre-eminently an economic and not a legal fact. The co-operative may or may not have capital stock. It may or may not have issued loan certificates representing money permanently borrowed from its members.¹⁰ It may have done neither but is financed solely by past trading profits allocated to the members but undistributed. But no matter how the co-operative got control of the capital, the fact remains that the possession of that capital is a factor of major importance in determining the amount which it can earn as an economic enterprise.

Here are earnings from the employment of capital totally exempt from income and excess profits taxes in the hands of one type of trading venture while heavily taxed in the hands of all its competitors conducting an identical type of business. This is a gross and totally indefensible inequity.

10. "For some years past co-operative societies in Ontario have been advised to incorporate without share capital and to finance their undertakings by loan units"

The annual report of the National Executive of the Co-Operative Union of Canada. The Canadian Co-Operator, December, 1943.

The third and last major idea which will be dealt with is that there is a segment of the total population which is clearly marked off from the rest of us and which is in some peculiar and mystical sense "the people", the heart and centre of democracy. This is one with which it is difficult to deal logically because it is so hard to define it precisely. It is suggested that "the people" are a clear and separate part of the whole population and that they are now coming to realize that the co-operative movement is the natural vehicle for the fulfilment of all their hopes for economic improvement,

This is part of the general claim for the exemption from tax of the income of co-operatives -- partial exemption where they are producer co-operatives, total exemption from both corporate and personal income tax where they are consumer co-operatives. In this respect and in this only it will be examined here.

If "the people" as members of co-operatives are to be excused from income tax, whether partially or wholly, it must be upon the grounds of relative poverty. Income tax inspectors can only administer a statute fairly which is drawn in objective terms. Therefore the claim to tax exemption is a statement that all co-operators are of income so low, they are so "under privileged", that they ought to receive a bounty at the hands of the government either directly and in cash or indirectly through specific exemption from taxes which others are required to bear.

Now the last report on co-operatives ¹¹ reports some 586,000 shareholders or members. No matter what allowance is

11. Richards and Lalonde, Cooperation in Canada, 1943, (Ottawa: Department of Agriculture, mimeo, 1945).

made for possible duplication, this is too large a share of the total Canadian population to be exclusively confined to the lowest segment of the income range. Even if common observation did not show that co-operatives include many persons in the middle and upper income ranges, it would be impossible to maintain the contrary from the simple fact that there aren't that many people at the bottom of the income scale.

The only study of the distribution of income in Canada which covers a fairly large sample is that of wage-earners in manufacturing industry.¹² For present purposes this is a fortunate co-incidence for this group must come as close to "the people" as defined in co-operative literature as any other. Certainly, industrial workers in Great Britain are the nucleus around which the British co-operative movement is organized. The study excludes all white-collar workers and all above the rank of foreman who occupy managerial positions, and is therefore a broadly homogeneous group.

Data on this group have been published for the years 1934, 1935, 1936 and 1940 and the two terminal years have been chosen for comparison. 1934 was still a year of depression; 1940 one of high prosperity. Between those years average weekly earnings of male workers rose by 22 per cent; the number employed by about 45 per cent; the total wages bill by about 75 per cent. But when the data for the two years are compared in Table 3 or in Lorenz curve form in Graph II it is seen that the change in relative distribution between the two years is so small as to be negligible.

12. See Dominion Bureau of Statistics, *Weekly Earnings of Male and Female Wage-Earners Employed in the Manufacturing Industries of Canada, 1934-36*, (Ottawa: the King's Printer, 1940) and *Weekly Earnings of Wage Earners Employed by the Manufacturing Industries of Canada, 1940*, (Ottawa, mimeo, 1944)

The graph is practically self-explanatory. The percentage of the total number of employees is shown on the horizontal axis. The percentage of the total income received is measured on the vertical axis. The two years are not identical, but the extremely high degree of similarity between them is obvious.

Two conclusions can be drawn from this fact. The first is that any attempt to set up a particular income group within which "the people" are found will be wrecked upon the basic fact that the distribution of income is continuous. There is no dividing line between them and those of higher income on the one hand or the dependent class upon the other. The second is that the distribution of income is not arbitrary. It is a reflection of fundamental capacities to produce and therefore of capacities to demand and to get paid the value of such production. Therefore, those who truly wish to increase the economic income of those at the low end of the income scale should devote more thought to ways and means of increasing the national income generally than to plan for transferring income from the whole community to the benefit of an arbitrarily-chosen group.

Finally, the membership of the co-operatives being so large as has been shown, there is a very high degree of probability that the average wealth of the top 5 per cent of their members (say 25,000 persons) exceeds that of the average country general store-keeper. Is it not anomalous that the latter should be so unequally burdened as they are now, to the benefit of a larger group of greater wealth?

TABLE 3^a

Percentage Distributions of the Numbers and
Earnings of Male Wage-Earners in Canadian
Manufacturing Industry, by Weekly Earnings,
1934 and 1940

Weekly Wage Groups		1934		1940	
		Numbers	Aggregate Earnings	Numbers	Aggregate Earnings
Under	\$6.00	2.8	0.6	1.7	0.3
\$6.00 and under	\$10.00	8.8	3.6	4.7	1.6
\$10.00	" "	\$15.00	18.7	11.6	11.7
\$15.00	" "	\$20.00	24.3	21.0	17.2
\$20.00	" "	\$25.00	19.8	21.8	20.2
\$25.00	" "	\$30.00	11.8	15.9	16.5
\$30.00	" "	\$35.00	6.9	11.1	11.4
\$35.00	" "	\$40.00	3.2	5.8	7.4
\$40.00	" "	\$45.00	1.7	3.5	4.0
\$45.00	" "	\$50.00	0.9	2.1	2.2
\$50.00 and over		1.1	3.0	3.0	8.8
Totals		100.0	100.0	100.0	100.0

a. Dominion Bureau of Statistics, Weekly Earnings of Male and Female Wage-Earners in the Manufacturing Industries of Canada, 1934-36 (Ottawa: The King's Printer, 1940) and Weekly Earnings of Wage-Earners Employed in the Manufacturing Industries of Canada, 1940 (Ottawa: mimeo, 1944).

The Recommendations of the Co-Operative Union
of Canada.

The Co-Operative Union has made its recommendations to your Honourable Body after all the evidence had been presented and these can be presumed to have had their most careful consideration and to embody their fully-considered opinions. In the light of the admissions of fact which Mr. Good made, it is perfectly clear that their ~~existing~~ tax-exempt status is totally untenable; but they seem to think that, as a matter of tactics, it is wise to propose a vast extension of their privileges and their regularization by statute; that statute to be also retroactive in its effect.

The first recommendation, namely, that there shall be no assessment to tax of income earned in the past¹³ is an admission that under the law as it now reads tax ought to have been paid. It implies a leniency toward them in the administration of the Income Tax Act which they now admit exceeded the limits of administrative discretion and which they want regularized by statute. Section 4(p) of that Act does not give exemption to co-operatives as such but only to those which operate upon a pooling basis, and then only in relation to the primary industries. That excludes all those bodies which act as principals and not as agents. Retail stores must be among those excluded. They buy at one price from wholesalers, take full possession and ownership, and then sell to their customers at another price which includes an element of profit or gain. The later distribution of that profit is clearly a separate thing, made not as a result of a legal obligation so to do, but as a matter of commercial policy.

The remaining recommendations are consistent in spirit

13. Ibid., pp. 7733-4

with this one. They are put forward as an attempt to make the existing (and legally questionable) practices lawful and administratively practicable. In fact they go far beyond that.

Section 4(p) provides for income tax exemption to pooling co-operatives in which the non-member business does not exceed $16\frac{2}{3}$ per cent of the total business. If that figure is exceeded then the exemption is foregone completely. This is no undue burden upon co-operatives. The Proceedings of this Commission are full of schemes for conferring automatic membership upon anyone who does business with a co-operative without ever inquiring whether membership is desired or not.

But even this provision, lax as it seems, is too confining for the kind of trade which the Co-operative Union wishes to encourage. It recommends that a co-operative shall have total exemption up to 20 per cent of total trade; shall be taxed only upon the excess over 20 per cent when non-member business exceeds that proportion; and shall not be taxable as an ordinary business organization until non-member business exceeds 50 per cent of the total.¹⁴ Taken in conjunction with the schemes already elaborated for automatic membership, this proposal would confer an even greater tax advantage than that which they at present enjoy.

The Co-Operative Union asks that its members shall be permitted to share among themselves part of the gains from trade with non-members, up to the limits proposed above, by paying or allocating lower patronage dividends to non-members than to members.¹⁵

14. Ibid. pp. 7734-5

15. Ibid, p. 7734.

The real force of this proposal is not clear at first reading. It needs to be explored to see what results it would produce when taken in conjunction with the proposal that a co-operative shall retain its special tax status so long as sales to non-members do not exceed 50 per cent of total sales. This is done in the first four columns of Table 4 (see next page) which shows the net results to members and to non-member patrons on various assumptions for the proportion of non-member to total business and for the manner of distribution of patronage dividends. The last two columns show the comparable result for a business which enjoys no exemption. The point of the table is to see the difference in net private income remaining after taxes, under the various assumptions, from a fixed amount of income before the deduction of taxes. This table will now be followed down column by column.

TABLE 4

Distribution of a Given Amount of Net Income of a Business Between Government on the one hand and The Members of a Co-Operative or the Private Owners on the other.

CO-OPERATIVES
MERCHANT WITHOUT
TAX EXEMPTION

With non-member business less than 20% of total sales	With non-member business 50% of total sales	Paying the same patronage dividends on all sales.	Paying patronage dividends $\frac{1}{2}$ the rate paid to members	Paying no patronage dividends to non-members	Paying minimum income and excess profits taxes	Paying maximum income and excess profits taxes
---	---	---	---	--	--	--

1. Net profit after all valuation reserves (depreciation, bad debts, etc.) available for income and excess profits taxes, dividends and surplus	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
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2. Income and excess profits taxes.	nil	9,000	9,000	9,000	30,000	80,000
3. Balances available to be distributed to the beneficial owners in the case of the co-operative or the legal owners of the business without tax exemption.	\$100,000	91,000	91,000	91,000	70,000	20,000

4. Distribution of this balance (a) to non-member patrons (b)	- 20,000	45,500	30,333	nil		
(b) to owner patrons	80 -100,000	45,500	60,667	91,000		

The first column takes the case of a co-operative in which non-member business is not in excess of 20 per cent and which, therefore, has complete tax exemption. Therefore the whole \$100,000 goes to the members or patrons and nothing to the state. The distribution of this sum will depend upon the by-laws of the association. If all business receives the same rate of patronage dividend, then the members draw no direct benefit from the non-member business. There may be, and probably are, indirect benefits from increased volume but these will be neglected here.

If, however, non-member business equals 20 per cent of the total and patronage dividend is paid on it at one-half the rate paid to members, then the amount received by the members becomes eight-ninths of the whole, or \$88,889, and the non-members one-ninth or \$11,111. The members have, therefore, received as individuals a profit of \$8,889, as a result of the non-member trading done. This is an increase of 11.1 per cent.

Columns II, III and IV compare the results where there is 50 per cent of non-member business but different bases for the distribution of patronage dividends. In each case, the tax is computed on the last 30 per cent of non-member business at the minimum rate of 30 per cent. Therefore, the government receives 9 per cent of the total income of the business and the members and patrons share the remaining 91 per cent.

Column II shows an essentially unstable situation. In it, the tax is treated as a general charge upon the business and patronage dividend is distributed at the same rate to members and to non-members alike. As a result, the share of the owner-patrons shrinks from the \$50,000 which it would by hypothesis have been without member business, to \$45,000. That situation

could last only until the members, who after all have the sole voting power, decide that the non-member business should bear the whole of the tax due to its presence. This would at once lift the dividend to patron-owners to \$50,000 and reduce that payable to non-member patrons to \$41,000. (That is \$50,000 minus \$9,000.

Columns III and IV illustrate the cases in which tax is still a general charge against the whole business. In Column III the dividend to non-member patrons is at only one-half the rate paid to owner-patrons. In this case the owner-patrons receive \$60,667, or an increase of 21 per cent over the \$50,000 they would have received if there had been no non-member business. If the whole of the tax were charged against the non-member share of the patronage dividends, then the distribution would read as follows:

- Dividend to owner-patrons	\$66,667
- Income tax on non-member portion of earnings	9,000
- Net dividend to non-member patrons	<u>24,333</u>
	\$100,000

In this case the profit accruing to the owner-patrons as a result of the non-member trading is 33 per cent.

In Column IV it is assumed that the co-operative pays no dividend to its non-member patrons. This may arise for any number of reasons. It may, for example, be done to encourage membership in order to hold its status as an exempted institution. It may be because the co-operative is in a community in which the floating population is high. In any case, the dividend to the owner-patrons becomes \$91,000, or an increase of 82 per cent over the proportionate amount due to their own patronage of the co-operative.

Columns V and VI show what happens to the private business making an identical profit before income and excess profit taxes. The net advantage of the co-operative runs from a minimum of \$21,000 to a maximum of \$71,000, depending upon the excess profits status of the private business.

MR. ELLIOTT: Are you speaking of incorporated or unincorporated concerns?

PROFESSOR McDOUGALL: Incorporated. Once you pass the \$5,000 limit under the excess profits tax it applies either way. The Co-Operative Union makes a simple proposal for the handling of non-member business. It is business which just can't be avoided. Only by attracting a non-member into the Co-operative store can they hope to win him over to membership. But as a result of following that perfectly normal and natural competitive practice, they would find that the members' share of total profits had increased by anything up to 82 per cent over the amount attributable to their own business as a result of the additional non-member trading.

The next recommendation is that investment income, whether arising from the investment of necessary reserves or from the retention of patronage dividends allocated but unpaid, shall be exempt from income tax.¹⁶ No reason is offered in defence of this proposal.

Interest is not paid upon war bonds held by a co-operative because of the loyalty of its patrons. It is paid because the co-operative, as a legal entity separate and distinct from its members, holds a legally enforceable claim upon the Dominion Government. The exemption of such income from taxation would be a bonus to co-operatives for which there is no shred of justification.

16. Ibid. p. 7735

The examination upon these recommendations provides many interesting sidelights upon them. It is explicitly recognized that all income earned on business done with non-members is properly taxable¹⁷ even if profits earned on business done with members were declared not to be taxable income.

It is implicitly admitted that a co-operative does earn an income from its transactions with its own members.¹⁸ An attempt is made to pass it off as a "net surplus for distribution".¹⁹ To that one can only say that when the competitors of co-operatives, buying from the same suppliers and selling either to identical or to wholly similar consumer groups, make a "net surplus for distribution", the Inspector of Income Tax is very firm in holding it to be a profit or gain subject to tax and they are allowed to retain only that part of it which is left over after that tax has been paid,

The argument which was so frequently urged at the beginning of the Proceedings -- that co-operatives fulfilled such a valuable social function that they ought to be encouraged by tax exemption as well as in any and every other way possible -- is ultimately deserted. It is not withdrawn; but it is definitely neither advanced nor relied on.²⁰ The only ground remaining in support of so extraordinary a privilege is that a co-operative shall receive it because it "provides service at cost for its membersall moneys remaining in its hands after payment of all costs....."²¹. In other words, even though all that income is retained within the business to

17. Ibid. pp. 7735 and 7752

18. Ibid. p. 7733

19. Ibid. p. 7740

20. Ibid. p. 7753

21. Ibid. p. 7734

finance its expansion, no tax shall be levied upon it because it is specifically allocated to the accounts of the members. Wherein does the economic effect of this differ from the case of the corporation which also pays nothing to its shareholders and puts the whole of its earnings to surplus? Yet the earnings which remain under its control are the earnings after income and excess profits taxes have been paid, and not the whole profit free of tax, as in the case of the co-operatives.

These recommendations are put forward as stabilizing the existing situation.²² They are, in fact, an attempt to enlarge them greatly and to embody those enlarged privileges in a section of the taxing statute which would thereafter be left unchanged for a long period, because it would have behind it the prestige of recommendation by this Commission. Under the conditions of 1939 this would have been a most extraordinary claim; under present conditions when the necessities of the central government are so great and so pressing, it is indefensible.

The Recommendation of the Federation
With the Reasons for it.

The Canadian Retail Federation has no desire to go beyond one simple recommendation. It believes in and recommends the full equality of all tax-payers. Of necessity, that objective cannot be completely realized. But any departure from it should be an unavoidable consequence of unforeseeable circumstances. They should not be embodied in the taxing statute itself. What is said below is an elaboration only of that basic theme.

Exemption granted to a retail co-operative is a gross and indefensible breach of that basic rule. The individual proprietor of a retail store must pay personal income tax

22. Ibid. p. 7733

upon the whole of his taxable income from it. It is sometimes argued that just as the proprietor of a business pays personal income tax so does the manager of the co-operative store. This is a misleading comparison. Let it be supposed that two stores -- one private, one a consumer co-operative -- exist which have always been and now are completely comparable in every respect except ownership. In the years 1936-39 each was able to pay \$3000 as drawing account to the owner and as salary to the manager of the co-operative respectively, and neither one had any surplus earnings over that sum.

With rising volume in the war period profits of both increase to \$8,000. The owner of the business is charged 15 per cent tax upon the additional \$5,000, as a profits tax and is thereafter liable to personal income tax upon the whole \$7250 remaining. On this he would pay about \$3,100. (married status, no dependents) or a total of \$3,850, thus leaving the independent owner with a net return over his basic salary of only \$1,250. In the case of the co-operative, the sole portion of the gross earnings which is assessed to tax is the \$3,000 salary of the manager, which is taxed in his hands and in his only. The whole of the war-born profits of \$5,000, which the co-operative has enjoyed equally with the independent, are left to the co-operative to do with as it sees fit. It can be used for expansion. It may be paid out in dividends, and, if so paid, is not even taxable in the hands of its recipients. It may be allocated to the members upon the books of the co-operative, but unpaid for any number of years and used in the meantime as a working asset.

This inequality of treatment is all the clearer if comparison is made with an ordinary company. Practically

all co-operatives are legally incorporated with all the advantages of limited liability, perpetual succession and a common seal, just as any other company is. Those others pay a corporate income tax for which no allowance is made when personal tax is assessed upon the shareholder in respect of dividends paid to him out of the balance of income left to the corporation after it has paid the tax levied upon it. Whether the corporate income tax be regarded as a tax levied upon the very real privilege of incorporation, or whether it is merely an attempt to collect money where it can be got quickly without any particular reason beyond that crude and basic fact is, for present purposes, unimportant. But it is important that the whole weight of the taxing machinery is applied to restricting the income of one group of corporations to the pre-war level, while another group is allowed the full disposal, free of tax, of the whole of its war-time profits.

In relation to retail trade, this case may be put as follows: If the concealed bonus of exemption from a heavy tax is necessary to maintain co-operatives in existence, then it is clear proof of their incompetence as distributors. If they could attain a level of efficiency equal to that of their competitors, then they could bear the same tax load and still do as well, upon the average, as their competitors do.

If co-operatives are able to operate at an efficiency equal to that of their competitors so that the bonus is unnecessary, then three results may be expected:-

(1) The additional net private gain made by the co-operatives can be used to attract custom and to finance expansion.

Indeed, the device of allocating dividends to members but of retaining the cash within the business -- the delayed "revolving door" plan -- makes it possible to accomplish both

purposes with the one dollar.

(2) The pressure of such bonussed competition will reduce the earning power of the tax-paying merchants and therefore reduce their tax-payments. The government which grants the bonus will therefore be actively reducing its own income.

(3) The tax-paying merchants will find themselves reduced in competitive power and an increasing number of them will finally find themselves compelled to withdraw. This tendency is already observable on the Canadian Prairies. How long the process will take will depend upon the differential in taxation which they are required to bear. But it is certain that the change will take place sooner or later with a substantial loss of capital to the owners of the business and a permanent loss of revenue to the state.

Therefore, the Federation concludes that, whether the co-operatives are relatively inefficient or whether they can meet the private merchant upon an even footing, there is a net loss of national income from granting them tax exemption. This is true regardless of the position of the Dominion Treasury. It depends solely upon the necessity of making an intelligent and economical use of the nation's resources. On this ground the Federation recommends against the continuance of the existing tax favours. The taxing power of the state should not be used to build up one group at the expense of another at any time; and still less so when it leaves the whole nation the poorer.

Secondly, this is a problem of taxation as well as one of commercial competition. Corporate and personal taxes provide the hard core of the whole federal revenue system. This is a source of public revenue which cannot be treated lightly. If anything is done to affect these revenues,

alternative and equally productive tax sources must be found. It is very difficult to make any dependable estimate of national revenues and expenditures in the first "normal" post-war year, but present indications are that Dominion expenditures will originate something in the order of 25 per cent of the whole national income even with full prosperity²³ and a still higher percentage if there is any failure to reach that state. In an economy so heavily taxed, it is completely impossible to leave any section free of tax. Even if the unfairness of the existing situation to those who are now in business were set to one side as irrelevant, it would be necessary to levy equal taxes upon all who trade. No government can safely flout the clear principles of equity. Even if it were inclined to do so, the imperative necessity of protecting the public revenue would forbid it. Respect for principle and the common dictates of expediency alike demand complete uniformity in the treatment of all tax-payers.

23. In 1939 dollars, full employment might mean a national income of about \$6,200 millions. Expenditures on Dominion account can hardly be less than \$1650 millions and may be more. The latter is 26.6 per cent of the former. If there is less than full employment, it will increase the calls upon the Dominion treasury and decrease the tax collection under any given set of rates.

It will, of course, be recognized that these are estimates on which a margin of error is inevitable.

Summary and Conclusion

1. The intensity of competition between merchants is so great, and the average margin of net profit so narrow, that at existing levels of income taxation few if any of them can hope to compensate by superior operating efficiency for the enormous advantage conferred upon co-operatives under existing law and practice by freedom from income and excess profits taxes.
2. The public as a whole cannot gain from tax exemption given to part of it and is nearly certain to lose.
3. It is shown:-
 - (a) that co-operatives are economic institutions. They do business in the hope of gain. Therefore, if business as such is taxed, so should they also.
 - (b) that retail business has no tendency to monopoly. Therefore, the contention that retail co-operatives are necessary for the protection of the public interest is baseless.
 - (c) that there is no special body of economically under-privileged persons, separate and distinct from the balance of the population, who are the special province of the co-operative movement. Even if there were such a body of under-privileged persons, the co-operative movement is already much too large to be confined to it; and it is growing rapidly. Therefore, the analysis of the current state of the Canadian economy, on which the foundation for the co-operative claim for tax-exemption rests, has no foundation in fact.
4. It is shown that the Co-Operative Union admits that income is earned by co-operatives. Under the guise of regularizing their existing privileges (privileges which they find them-

selves unable to defend) they propose a vast extension of them.

5. The Federation makes one simple recommendation -- that all who trade should stand on a footing of complete equality before the taxing power, neither suffering a penalty nor enjoying an exemption.

All of which is most respectfully submitted by

THE CANADIAN RETAIL FEDERATION

P. K. Heywood
President

Geo. S. Mongham
Secretary-Treasurer

Appendix I

The following extract from the Proceedings of this Commission, at pages 2421 to 2424, gives in full the examination of Mr. Savage, Secretary-Treasurer of the Ontario Co-Operative Union, by Mr. Elliott.

Page 2421

"By Mr. Elliott:

Q. In that same section, in the comparison between profit companies and co-operatives, I take it that the purpose of the section, the reason why it has been included, is to show that there is a difference in the objects for which the two sorts of companies are organized? A. Yes.

Q. That is probably the main reason for putting that in. It is quite difficult demonstratively to discover the purpose?

A. Yes.

Q. I would like to go through with you a number of these points and ask what you think is the significance of the differences from the standpoint of administering taxation. To begin with, on page 17 you say: 'Cooperation, on the other hand, is a union of persons who subscribe capital for the purpose of providing themselves with goods and services at cost.' There is one preliminary point there. Presumably the members get an advantage through subscribing this capital? A. Yes sir, I think. that is so.

Page 2422

Q. And that advantage is an inducement which leads them to subscribe capital? A. That is the principle of the cooperative.

Q. You say: 'The inducement held out by cooperatives is not profit, but saving, and service by the members of the co-operative for themselves.' That saving and that service depend upon the use of invested funds -- in part? A. Yes.

Q. So that the members obtain an advantage from using their

funds in a cooperative organization? A. That is right, I think, yes.

Q. I have asked this question a number of times before: Is there any way of measuring in dollars and cents the advantage -- I am excluding the social advantages -- of the saving that they get from this method of procedure? A. I could not give you any fixed measure for it. It seems to me that it can only be decided at the end of the period of operation as to what the practical or financial advantage is to the member from the use of his cooperative, and it might vary in different cases.

Q. You are thinking of the patronage dividend now as a measure of the advantage? A. Yes.

Q. If, as you suggest, the cooperatives, speaking of the consumer cooperatives, changed their policy to charging lower than the current price, then the patronage dividend would no longer measure the advantage obtained by the members from acting cooperatively? A. I would say it would not accurately measure it.

Q. And if, as sometimes happens, the cooperative organization were to charge a somewhat higher price than other stores in the district the patronage dividend in that case would not exactly measure the advantage to the members? A. I agree.

page 2423.

Q. Do you consider the inducement that you hold out to your members to subscribe capital to be as strong as, or either stronger or less strong than, the inducement the ordinary company holds out to the prospective buyers of its shares, or have you enough experience to offer an opinion on that question?

A. If I may express an opinion on it, I would say that the cooperative does offer a greater inducement to its members to invest funds in the organization than a private company does.

Q. Then why are not all funds invested in cooperatives?

A. That is one thing we cannot understand, sir.

Q. In the raising of funds, then, you do not feel yourself at any disadvantage as compared with the non-cooperative companies? A. No, sir, I do not think we are in so far as the raising of funds is concerned. There is no disadvantage that I know of.

Q. You say: "A cooperative is organized to provide goods and services for its members, and as a corporate body it is merely the agent of its members." Would you say in the same sense that the non-cooperative corporation was the agent of its members in making profits for its members? A. Not necessarily so.

Q. Will you explain what you mean by "not necessarily so"?

A. In the first instance, in the case of a cooperative, it is organized with that object in view, that is, the object of supplying goods and services for its members. In so far as the profit company is concerned, it is not organized with the object in view of providing goods and services to its members whom I class as shareholders, but rather to a third party, The page 2424.

objective in the case of the profit company is to provide a profit for the shareholders, but they provide goods and services to a third party who is outside the shareholders.

Q. My question concerns the idea of acting as agent, however.

A. In my opinion, sir, the private company does not act as agent for its shareholders.

Q. Even in the making of profits? A. Maybe in the making of profits, but not in the provision of goods and services. I think I can agree that it acts as agent for its shareholders in the making of profits.

THE CHAIRMAN: I suppose you admit that purposes and performances are not quite the same?

THE WITNESS: I agree, sir.

(End of examination by Mr. Elliott)

MR. PARKER: I understand that Professor McDougall is here not in his capacity as a witness but rather as the advocate of a cause, and on the assumption that conceivably I may be asked by you gentlemen privately if I have any comments to make on his argument, I should like to have permission, Mr. Chairman, to ask him to clarify one point for me so that I in turn may be in a position to evaluate properly what his argument adds up to.

THE CHAIRMAN: I think that is proper.

MR. PARKER: The question is this. I understand, Professor McDougall, that in a word your argument includes among other things the proposal that the entire amount of patronage dividends so called should be treated as income and taxed accordingly. Am I correct?

PROFESSOR McDOUGALL: Yes.

MR. PARKER: Do you agree with the suggestion that the money which represents the patronage dividend might be divided up according to the source from which it came and the elements of which it is comprised?

PROFESSOR McDOUGALL: Yes.

Mr. PARKER: I think you see my point. By way of illustration I put this to you. Take a wheat-grower who has a bushel of wheat to sell. Now I am speaking not as an economist but as I presume any plain ordinary farmer or business man with a little common sense would speak. We know the value of that bushel of wheat; it is in the vicinity of a dollar -- 90 or 95 cents or \$1.10. Anyway it is around that figure. The farmer says to the co-operative, "Take my bushel of wheat. All I want to-day is 10 cents. I know I shall get another 70 or 80 cents some time." That bushel of wheat is taken and put through the usual processes and sold. On what principle do you say that the spread from 10 cents to 80 cents or 90 cents or whatever

it may be, which he receives back, can justifiably be called income in the hands of the association and taxable as such. Have I made the point clear?

PROFESSOR McDOUGALL: If I may re-state it, there is in the final payment some part of the normal commercial price of that bushel of wheat as at the time it was received, and there is a second part which is clear profit on trading.

MR. PARKER: I am not trying to designate what the balance is. I am confining my remarks to that part which he has received. He might get ten cents or twenty or thirty or he might be overpaid. I am merely asking you to explain on what principle you say that the spread he gets under the name of patronage dividend should be treated as income in the hands of the association and be taxed as such.

PROFESSOR McDOUGALL: The problem is administrative rather than logical.

MR. PARKER: But the administration has to face the same problem.

PROFESSOR McDOUGALL: Only payments made before the end of the fiscal year would be treated as payments on account of cost, and anything paid after that would be clearly profit. The amount that is paid before the end of the fiscal year might include some element of profit, but you must make a breaking point somewhere.

MR. PARKER: I am merely asking you to tell me on what theory or on what basis you say that the spread to which I call your attention should be treated as income in the hands of the association.

PROFESSOR McDOUGALL: There are two perfectly clear and logically separate things there, first, the full purchase price of the wheat, and secondly, the element of profit

resulting from trading and ownership of capital. The problem is an administrative question of establishing the objective break between the two.

MR. PARKER: Supposing you were the administrative official, how would you solve it?

PROFESSOR McDOUGALL: I would say that anything paid before the end of the fiscal year would be a repayment, and what was paid out after would be treated as profit. It may be that what is really at issue is not the question of co-operatives as such but the question whether you can make the existing tax structure work, and my idea is that it will not work.

MR. PARKER: I was trying to keep it to one point.

MR. ELLIOTT: It seems to me that two questions have been answered together there. Suppose it were possible administratively to divide the amount between the remainder of the ordinary price and profit, would you be in favour of taxing the remainder of the ordinary price in the hands of the co-operative?

PROFESSOR McDOUGALL: No, I would not.

MR. ELLIOTT: When you say it is an administrative problem you are not in favour, if it can be avoided administratively, of taxing the remainder of the ordinary price, but you are in favour of taxing the remainder which is profit.

PROFESSOR McDOUGALL: The remainder which is profit.

THE CHAIRMAN: The element of profit that enters into the patronage dividend you would tax?

PROFESSOR McDOUGALL: Yes. But as co-operatives rise in relation to the total volume of business, what is a fair market price becomes an increasingly tenuous thing and when they hold 75 per cent of the market you do not know what the market is.

MR. ARNASON: Do I understand you to say that that part of the price which is refundable to the farmer before the end of the fiscal year you would not consider as profit in the hands of the

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corporation?

PROFESSOR McDOUGALL: Not on the basis of principle, but purely as an administrative rule.

MR. ARNASON: Suppose that in the normal course of handling the wheat it is not possible for the association to dispose of all of the wheat before the end of the fiscal year -- that is the end of the fiscal year in which it was delivered -- assuming that it is impossible to move it because of transportation difficulties or because the market will not absorb it, do I understand you to say that you would treat that part of the payment which might have to be held over beyond the end of the fiscal year owing to these factors, as profit in the hands of the co-operative? I am not trying to put words into your mouth,

PROFESSOR McDOUGALL: I see your point, but that is taken care of by the ordinary accounting rules. You have a profit or a loss in your hands at the end of the year. You will make your calculations at the market price as of the close of your year. If you close your books on the 31st of July the value of the wheat on hand will be entered as of July 31. If in the following fiscal year you sell that wheat for more than that closing market price, you will have a profit and if you sell it for less you will have a loss. It is an administrative problem rather than a problem in logic. We all agree in logic that there is a fair commercial value of the wheat at the time it was bought and secondly, an amount of profit made through ownership of capital and by trading in wheat. It is entirely in connection with the producer co-operative that this problem appears.

MR. ELLIOTT: I understand that in the retail field your argument is that the patronage dividend constitutes a distribution of profits of the co-operative society.

PROFESSOR McDOUGALL: Yes.

MR. ELLIOTT: Not a reduction in price.

PROFESSOR McDOUGALL: Quite.

MR. ELLIOTT: On page 28 of your written argument you say: "The additional net private gain made by the co-operatives can be used to attract custom and to finance expansion." I think I understand what you mean by saying that it can be used to finance expansion, but what have you in mind when you say that it might be used to attract custom?

PROFESSOR McDOUGALL: The provision of better buildings, the maintenance of larger stocks and everything of that kind is completely open to it because it has more money.

MR. ELLIOTT: You are excluding that from financing expansion.

PROFESSOR McDOUGALL: It does both. If you carry a larger stock it is expansion, and it attracts custom.

MR. ELLIOTT: That is what you have in mind, rather than the attraction of custom by giving patronage dividends?

PROFESSOR McDOUGALL: Yes. I have found an extreme reluctance on the part of retail co-operators to depart from the existing prices set by their competitors.

MR. ELLIOTT: In England we find that the custom varies in respect of different goods and also with respect to different societies. Some societies apparently charge fairly high prices in order to be able to return quite a large amount to their members at Christmas or at some other convenient time. So far as as our Canadian societies are concerned, I do not recall any evidence in that regard. How would you regard such returns of fairly large amounts apparently attributable to the fact that the customer pays more than the ordinary market price for some articles? Would you regard that as a distribution of profits?

PROFESSOR McDOUGALL: I think that for the purposes of taxation you would be compelled to do so, leaving it to the

society to adjust its operating practices in the light of the tax situation.

MR. ELLIOTT: Presumably there is an administrative as well as a logical answer. Logically, how would you regard it?

PROFESSOR McDOUGALL: I should think that probably there was an element, a fairly small element, that might be considered an overcharge. There would be a willingness on the part of people to accept an overcharge within limits, provided they thought they would get it back anyhow along with the trading profit; but if there was any question of its not coming back the practice would change. If I remember rightly the Timmins Society used to pay dividends on capital stock and when these were subject to 40 per cent in the hands of the shareholder they paid nothing but patronage dividends which were untaxed. That is the kind of adjustment I have in mind.

MR. VAUGHAN: Suppose a co-operative decided in advance that its profit would be so much and it was all paid out before the end of the year, there would be nothing taxable in that case if you based it on the time factor. I wonder if you have given serious consideration to the question, or would you care to give an answer offhand, as to whether that time factor is a sound way of making the division.

PROFESSOR McDOUGALL: I am very doubtful of the possibility of doing anything to bring the co-operatives inside income tax and that is why I say you may be compelled to push the whole thing to one side on the ground of its not being workable. As a rough rule it would probably work not too badly and it would work worst of all in those types of business which were completely open to forecast of results. Any co-operative in a quiet and settled community would almost certainly pay out everything -- any producers' co-operative --

and have nothing left to tax, and it would be perfectly clear to those who were administering the Act that they were climbing out from under it, that they were not paying income tax on clear income because the rule favoured them.

MR. VAUGHAN: You have mentioned producer co-operatives. Would you say the same of consumer co-operatives?

PROFESSOR McDOUGALL: In the case of consumer co-operatives, if they so elected they could under the corporate income tax price goods so low as to have no profit, and I do not see how you would reach them.

MR. VAUGHAN: I was thinking of the time factor when I asked about consumer co-operatives. It would be easy in December, if the year ended at the end of December, to determine what patronage dividend could be paid and pay it in December before the close of the year and by that means there would be nothing to tax.

Argument on behalf of
United Grain Growers Limited

Mr. G. H. STEER, K.C: In what I have to say I shall endeavour to avoid any unnecessary repetition of what has been said or any unnecessary references to our brief or to the evidence that has been given.

We started out to make a case for this company under three distinct headings. First we said that the company is a co-operative now, and that at all times has it been ~~such~~, a farmers' co-operative in structure, in intent and in mode of operation. The second point we make is that that co-operative has been discriminated against with respect to income and excess profits taxes as compared with other farmers' co-operatives; and the third point we make is that the company seeks no preferential treatment. It is prepared to meet any competition on even terms, but it thinks that the tax laws should bear evenly as between its competitors and itself, no matter who those competitors are.

From that point of view the situation is set out at page 33 of the brief in language which, with your permission, I should like to read because it puts the matter very succinctly. I quote:

"The company has been in existence for nearly forty years. It started in 1906 in a small and humble way. It has prospered and grown into a very considerable size. Throughout its history it has met privately-owned competition on even terms. It has never sought and does not now seek any preferential treatment for itself. It has faith in the cooperative way of business. It believes that co-operation is a vital and living force which under proper guidance can continue to exist and flourish without any special advantage over competitors."

It is apparent that this company is not seeking to get itself from a tax-paying into a tax-exempt position, but if concessions are to be given to co-operatives -- and we have pointed out that there are certain grounds on which perhaps these concessions ought to be given -- then we have just as much right to such concessions as any other farmers' organization.

This company prides itself on being the oldest co-operative in Canada. Its primary concern is to see that its farmer members are enabled to operate at the lowest possible cost and to obtain for them the largest share of the price of their product.

The company thinks that section 4 (p) of the Income War Tax Act was not enacted with the intention of having the effect that it has had, namely, of creating a serious tax discrimination among farmers' co-operatives which are equally co-operative in structure, in intent and in mode of operation. That discrimination we have described in the brief, and it has been referred to in the evidence, and I should like to say here that whether that discrimination flows from the words of the section itself or from what may be an erroneous interpretation of those words it has created a discrimination which this company claims the right to have removed.

At the same time, the company urges that, for reasons which appear in the brief, the method employed to remove that discrimination should not be the complete taxation of co-operatives, and it has made certain recommendations which the Commission will consider as to a proper middle ground between the extremes of complete taxation and complete exemption. With those recommendations I shall deal

later.

The company is glad to note in the evidence recognition of its co-operative status. That was given by the Alberta and Grande Prairie Live Stock Co-operatives. The evidence discloses that this idea of live stock co-operative selling was first promoted by this company. It founded the business and organized local shipping associations and finally transferred those facilities to locals to be operated by them.

In addition to that, both the Alberta and Saskatchewan and indeed the Manitoba Pools have recognized the co-operative status of this company. They recognize the company's services to the movement as exemplified in the early struggle with the Winnipeg Grain Exchange and the railway monopoly with respect to elevators. Indeed it was this company that first suggested the pooling idea and they assisted the pool, particularly in Alberta, with loans of money and by financing a seat on the Winnipeg Grain Exchange.

The evidence also shows that the company is so far co-operative inherently that throughout its history it has expended \$400,000 in educational efforts which are generally recognized as characteristic of the principle. We refer to this evidence first because the company takes pride in what it has done for the farmer through the co-operative movement. We refer to it secondly because in our view it is the most cogent evidence you can get of the truly co-operative nature of the organization. It is only such an organization that would do the things to which I have referred, and we submit that it is a very anomalous situation that an income tax law should be enacted intending to exempt co-operatives wholly or partially while having the effect of depriving this company of the benefit of the exemption which was intended for co-operative concerns. We look upon it as

fortunate that the Commission was able to examine the British situation. I have no reason to know what you gentlemen found when you were in Great Britain. I predict that what you found was a group of organizations with share capital as their foundation and share capital in large amounts. You found organizations which recognize the obligation to pay interest or dividends on their stock before any patronage dividends are paid. You found that neither such interest nor patronage dividends were taxed in the hands of the corporations paying them.

I make these statements on the authority of what is contained in a recognized work, "The Law of Income Tax" by E. M. Konstam, Ninth Edition, at page 153. I do not know that on such a hot day I ought to read much, but may I read what they say:

"It has already been seen that 'mutual' trading companies and societies, including societies registered under the Industrial and Provident Societies Acts, are made liable for profits of mutual transactions; but that bonuses, rebates and so forth, returnable to members, and calculated by reference to the amounts, or the magnitude, of transactions with those members, are deductible as a trade expense. In addition, such 'registered bodies' are allowed relief from tax in respect of 'share interest', that is, any interest, dividend, bonus or other sum payable to a shareholder by reference to his holding, and of 'loan interest', that is, any interest payable by the society (whether to a member or other person) in respect of any mortgage, loan, loan stock or deposit; the interest need not have been actually paid in either case, but must have been credited to the person entitled. Such interest is to be paid without deduction of tax; the recipient will be liable to tax in respect of it if his total income is within the taxable limit."

That statement is based upon the tax provisions which your Commission will find conveniently set out at pages 447 and 537 of the same work. An examination of these statutory provisions shows, I suggest, the accuracy of the summary which I have just read. I suggest that you found that there was what amounts to a delegate system of voting. It is true that apparently the retail societies' members meet together individually but it is equally obvious, I suggest, with regard to the federated societies and the big wholesalers that you have in them what amounts to a delegate system of voting and you have it, in our submission, for exactly the same reasons as prompted the development of that system in the pools and in our government. You found those organizations organized in the way I have suggested and engaging in a multiplicity of businesses manufacturing many lines. You found probably that the Scottish Wholesale Society had a line of elevators in Western Canada. You found that producers' co-operatives were engaged in supplying their members with farm supplies just as this company and the United Farmers of Ontario have done, and you found reserves accumulated neither paid out nor allocated.

From these facts, observed by you, and other facts, we have no doubt you will agree that this company has been properly recognized as co-operative by British authorities, Fay and others, who are referred to in our brief. From this point of view this company would be almost prepared to allow its status to stand or fall on what you saw in Britain; for we think that if you deny the status of a co-operative to this company you will have to deny it to all those British organizations which you saw, since we are all organized in the same way.

May I refer for a moment to the methods of finance used in Britain. They are fully described in Carr-Saunders "Consumers' Cooperation in Great Britain", which I have no doubt is familiar to you, and they show huge amounts of capital -- £169,000,000 in the retail societies, increased by an accumulation of reserves to £229,000,000. The accumulation of reserves is something that is not unknown to the British co-operative movement. It is big business, and the wheat trade in Western Canada is big business, and there seems to us to be a great deal of confusion of thought when you are talking about size only with respect to co-operatives. In Vancouver and Edmonton there was submitted evidence in which there appeared the term "true co-operative", from which the implication was sought to be left that a small group of individuals joining together in either a consumers' or a producers' organization would properly be designated as co-operative if they operated within the principles, but when such a business, either producers or consumers, expands so as to operate interprovincially or in a national way, then for some reason the mere size of the organization is regarded as precluding it from recognition as a real co-operative.

This Company recognizes no **such** distinction whether on the ground of size or on the ground of variety of business or the kind of business it does or on the ground of taxation or no taxation. It may well be that the ruling of the Income Tax Department to which reference has been made in our evidence and in other evidence, to the effect that if a company pays dividends on its share capital it thereby ceases to be entitled to recognition as a co-operative or as a company which is entitled to the benefit of section 4(p), may or may not be correct. If it is correct it may lead to the taxation of an organization, but

but it has no bearing whatsoever on the question whether or not that co-operative is entitled to that designation. We think too that those of you who visited the United States found there evidence which supports our contention. You found, we think, that co-operation there, probably of the magnitude that exists to-day, is of much later development than in the case of Britain. You found that the Rochdale plan was not as closely followed as it has been followed in some organizations in Canada, owing probably to the impact of the income tax laws upon that situation. But you found business with non-members allowed up to 50 per cent. You found that the capital was furnished not so much by deposits or loans as in England, but more along the line that has been adopted by this company of bank loans, mortgages and preferred stock, all of which are recognized as proper media through which to finance a co-operative venture.

Now in our brief at pages 16 to 18 we have given some authority for what constitutes a real co-operative, and I do not intend to repeat what is there stated. I should like to refer the Commission to the Year Book of the Encyclopaedia Britannica for the year 1945. In that book, at page 211, it is stated that the essential Rochdale principles as adopted by the International Co-operative Alliance to meet the needs of co-operatives of varying types should be these: open membership, that is the right of anyone to join on the same terms as existing members; one member, one vote, irrespective of the amount of invested capital; limited interest on share capital; the right to return trading surplus to members either in dividends on their trade with the co-operative, or in common services; the devotion of a proportion of trading surplus to educational work.

We say that by and large this company has answered the tests that are set out in the brief and it answers the tests that are contained in that quotation I have just given. What we say is that we do adhere in this company to true Rochdale principles. In the cross-examination of Mr. Law, there were some suggestions to the contrary. It seemed to be suggested that possibly this company, both in organization and in business methods, might depart from Rochdale principles. It seemed to be suggested that the delegate system of voting which we had adopted was not democratic. It seemed to be suggested that the fact that we have subsidiary companies prevented us from being a real co-operative.

With regard to organization and business methods the Chairman, at page 7125 of the evidence of Mr. Law, referred to the use of the word "substantial" in reference to the extent to which this company adhered to the Rochdale principles. That word "substantial" was used deliberately. In our submission, it is not to be expected that you can take a consumers movement from a densely populated area like Great Britain where stores serve comparatively small districts and transfer that movement into sparsely settled western Canada, turning it into a producers' movement, without some deviations being found to exist between the two. That is all we say. For example, with regard to the withdrawal of capital, I have no doubt the Commission found in Britain that there was free withdrawal of capital by members of these organizations. Our conception of corporate law in Canada was such that although we wanted that privilege, although we wanted possibly to keep our shares in the hands of farmer customers, we were not able to do so until the amendments of 1939 and 1940 secured the limited right to the company of purchasing B shares for sale to other customers so long as they retained not more than

ten per cent. Moreover, financing matters had to be different. The amounts of money that were required to build country and terminal elevators and finance stocks of grain were infinitely greater than those that would be required to operate a consumers' store, and these large developments that you have seen came from the original financing of these consumers' stores. The amounts of money required were such that other methods of financing had to be adopted. The same reasons, in our submission, compelled the adoption of some system of members' meetings other than that whereby the shareholder members all came together in one body. Where 35,000 men compose an organization, or 56,000 in Alberta, or 100,000 in the case of Saskatchewan, you cannot have members' meetings involving that number of people any more than there could be members' meetings embracing every individual who happened to be interested in the wholesale societies of Great Britain.

What we suggest is this. If you examine our bylaws and the evidence as to the way in which the business of this company is conducted, you will find an organization where the directors, the executive, are particularly sensitive to the opinions of the member body, and that after all is the main test. Is this organization democratic -- because that is what Rochdale aimed at. Without reading it, may I refer you to what Fay has to say in his book "Co-operation at Home and Abroad", the 1939 edition, page 116, where he discusses the meaning of the word "responsible"? What I suggest to you, after reading his discussion of this word "responsible" as applied to co-operatives, is that the passage might very well have been written as applicable to this company. I have only one more word to say on that question, and it is this. No one has yet criticised our representative system of government because of its undemocratic character, and what I say is that all the objections that appear to have been raised

to this system of delegate voting, so far as this organization is concerned, can equally be applied to that representative system. As the organization of human beings grew from the city state where all citizens could meet together for the purpose of discussing their affairs to the national state where such meetings were impossible, you have the development of the representative system which is, we think, one of the greatest contributions to human advancement which the Anglo-Saxon race has made to mankind, and if you are going to criticize the organization of this company on that ground then in my respectful submission you are going to criticise our whole representative system of government as being undemocratic. It was suggested that our subsidiary companies prevented our being truly co-operative. From our point of view all we are saying is that we are entitled to equality of treatment, and we point out to you that the Saskatchewan Pool has five subsidiaries and interests in other companies, that the Alberta Pool has one subsidiary and interests in other companies, and there is what amounts, I suppose, to a subsidiary relationship between the elevator company in Manitoba and the locals, though the comparison may not be perfect. At any rate, it is analogous.

We say, therefore, that from the point of view of the organization of subsidiaries, first there does not seem to be much difference between carrying on a certain aspect of one's business through a subsidiary and carrying it on through a department of the company, which would be the only alternative; and in the second place, we say that as far as our immediate competitors are concerned, particularly the pools, we are all in the same boat, and the fact that we have subsidiaries is no reason why we should^{not}/be entitled to equality of treatment with our competitors.

At this point I hope we have been able to demonstrate to the Commission that this company is and always has been a truly co-operative organization.

The next point I would deal with, the second main point in my argument, is that this co-operative organization has been discriminated against with respect to income and excess profits taxes. This company, it is clear, is in competition with the three pools and a large number of independent elevator companies in the grain business in the west. We made a statement at page 33 of the brief to the effect that the Commission was going to have a good deal of difficulty with this grain business, and I think perhaps the course of evidence has demonstrated the truth of that statement.

MR. PARKER: That is a statement with which we can all agree.

THE CHAIRMAN: We will not deny that.

MR. STEER: There are reasons for it. First of all, there is the size of the operations. Probably there is more money invested in that group of co-operatives than in all other co-operatives in Canada put together. Secondly, there is a very broad and direct supervision over the business by the Board of Grain Commissioners and the Wheat Board, and therefore these businesses are carried on on very narrow margins. In the next place it is a very fluctuating business. Crop conditions may make quite a difference between large and small handlings and that makes all the difference between profit and loss to this company. Look at the figures at page 7173 of the evidence, or page 24 of our brief, and note the fluctuating nature of the income of this company, and make the same calculations with respect to the figures which your Commission has in connection with the pools. Notwithstanding that fluctuation, all these

concerns have to be operated because they are dealing with an essential food commodity, and if they have to operate all the elevators they cannot cut overhead in the same way that other companies can do. There is extremely close and direct competition between this Company, with its 500 odd elevators, and the other elevator companies, every one of them represented at one or more of the points where each of the others is to be found.

It might even be suggested that when the Commission which set up this body was drafted and, in those terms, made reference to close and direct competition, some such situation as that might have been in the minds of the people who did the drafting, because that competition, in our submission, is something quite different from the competition that exists between a retail store, a consumers' store, in Toronto, and the T. Eaton Company in that city. There is a great difference because of the considerations that I have mentioned. Charges for handling business are all regulated as maximum charges, by authority, and prices that can be obtained for the product are controlled by competition.

You have seen in the evidence that a tax-free business can therefore reduce charges or handling costs to the point where competitors who pay taxes become bankrupt. These are the reasons why we say that this grain business requires very careful and perhaps individual consideration. It is a fluctuating business; it has a fluctuating income, and it has been pointed out that, notwithstanding losses of very large amounts, under present rates of taxation the largest amount that can be obtained in any year to recoup these losses is \$297,000, and the losses some years will be considerably more.

That is the nature of the business, and what is the

position with regard to income tax? It is clear that to date the pools have paid no taxes. It is true also that the whole question is in litigation. At any rate, up to date, the pools have paid no taxes. This company has always thought, rightly or wrongly, that it did not come within 4(p) and was not entitled to exemption. You have on the one hand the pools with their volume of business and profits, paying no taxes, and on the other hand this company paying its taxes. What is the result? Look again at the table on page 24 of the brief, or page 7173 of the evidence. In 1930, the company lost \$600,000; in 1933, \$31,000; in 1937, \$500,000; and in 1938, \$390,000. How is the company going to be fair to its shareholders and recoup such losses?

Look at it from another point of view. Look at Column 4 and then make a computation of the difference between taxes paid by this company, if patronage dividends are allowed as an expense, then for these five years, 1940 to 1944, the difference is between \$920,000 and \$2,464,000. If that taxation figure is looked at from the point of view of bushels handled from 1940 to 1944, that company pays half a cent a bushel in any event, and its competitor pays none. If patronage dividends are not allowed as an expense, it pays one and a half cents. In 1944, if patronage dividends are not allowed as an expense, the company pays two and a half cents. There are four companies, three of them tax free and one of them bearing taxes of the magnitude indicated. There can be only one result from that situation, in our submission -- the complete bankruptcy and disappearance of companies such as ours, which are subject to that tremendous tax burden and the monopoly handling of the grain business in the tax-free organizations.

To put the argument in another way, the Saskatchewan Pool earned in 1944, \$7,000,000. It set aside \$4,000,000 as patronage dividends and pays no tax on any part of the \$7,000,000. This company pays a minimum tax of 40 per cent and can hold at best \$297,000. The disappearance of a company which is under that disadvantage with respect to taxation is inevitable.

Now I come to the third point of my argument and perhaps, Mr. Chairman, this might be a convenient moment to take the luncheon recess.

Adjournment at 12.30 p.m.

Pursuant to adjournment the Commission met at 2 p.m.

THE CHAIRMAN: All right, Mr. Steer.

MR. STEER: I now proceed, gentlemen, to deal with the third main point of my argument, and that is as to whether there is any sound ground for a discrimination which has been shown to exist.

The situation since 1931 is that we have four corporations, the three pools and this company all, since that time, 1931, with methods of carrying on business and objectives which are basically identical. They are all controlled by directors and by executive officers, and we say that there is no difference between them in any substantial degree which would justify any different treatment of this company with respect to taxes from the treatment accorded to the other three.

Without taking too much time I should like to point out the different bases on which these corporations might be compared, having in mind the evidence that has been given, to see whether there is any difference between them. I say in the first place, with regard to membership and membership qualifications, there is no difference; they are all farmers. The qualification with respect to the Grain Growers Company is a \$5 B share. The qualification with respect to the Alberta Pool is a \$5 interest in reserves. The qualification with respect to the Saskatchewan Pool is a \$1 membership or share, plus perhaps, not necessarily, an interest in reserves.

There is not any real difference once you admit the proposition, as Mr. Wesson was free to admit it, that the real capital of these pools is not their share subscriptions, which are insignificant in amount, but the deductions which

were made in the early days for elevator reserves and commercial reserves.

In voting rights, all four corporations are much alike, with certain differences, of course, when you compare Manitoba with the other three; but the delegate system of voting, as used in the Alberta and Saskatchewan pools, is much as it is in the Grain Growers Company.

I have pointed out that it has been admitted that the capital of these pools is the deductions that were made; and once that is admitted, a comparison of the capital structure shows very essential similarity. We have class A shares, class B shares, general reserve capital surplus and undistributed surplus. The Saskatchewan pool, taking it as an example, has a certain amount of capital; it has a huge elevator reserve of ten or twelve million dollars; it has very large commercial reserves of approximately \$6,000,000, and in addition it has other reserves in undivided surpluses, just as we have. So I say that once you admit that the real capital of the pools is these reserves, there is not any difference between them and this company as far as capital structure is concerned.

Those deductions constituting the capital of the pools are something quite different from the deposits and loans which form a large part of the British Co-operative capital. As I said this morning, it is quite clear that those shares are withdrawable. It is equally clear that in the case of the pools, these reserves cannot be withdrawn, any more than the capital stock which was subscribed in this company can be withdrawn. It is true that both the Saskatchewan and the Alberta pools got the right to purchase interests in these reserves so as to get them into the hands of other people, a situation entirely analogous to the amendments made in 1939

and 1940, which permitted this company to have on hand up to ten per cent of its B shares, to get them into the hands of farmer customers.

The important point is that both in this company and in the Alberta and Saskatchewan pools, it is the ownership of this capital which determines the rights of the parties to vote, and which entitles them to share in the assets on hand in any possible winding up of the company.

May I point out here, too, that as far as the pools are concerned, this share capital of theirs has increased tremendously in value over the past five or six years; and I refer to this to show what the effects may be on business if discrimination of the magnitude about which we are talking here is permitted to continue. According to the 1939 report of the Saskatchewan pool, the book value of the growers' equity -- and this will be found at page 5 of that report -- was \$10,600,000 odd. In 1944, according to the report of that year at page 4, that equity had grown to \$18,000,000 odd, so in that length of time the capital, or the equity of the owners of the grain, has grown from 56.39 per cent to 95 per cent of the original capital. In the same period of six years, or five years, while they were accumulating \$8,000,000, this company was able to add to its reserves only \$283,000. That is largely, in our submission, accounted for by the difference in the tax position of the companies. I have no doubt that accountants for the Commission have made analyses of these figures, and I simply mention them in passing to indicate what the effect of tax discrimination may be.

There is no difference, we submit, with regard to ownership of assets, and I need say nothing more on that. It is the owners of the reserves who own the assets, just as it is

the owners of the B shares who own the assets of this company, subject to prior charges.

Then with regard to interest, or dividend on capital, we have seen the early organization of this company, which was organized on a basis of five per cent preferred shares, if such income were earned. That is a prior charge, as long as it is earned, In Alberta we have seen that no interest has been paid. We have seen that in Saskatchewan up to 1930 they did pay interest. Then none was paid until interest at the rate of three per cent was paid in 1943 and 1944. In our view the payment of interest on this capital -- and when I am talking about capital I am talking about our shares on the one hand and the reserves, the elevator and commercial deductions of the pools on the other -- the payment of interest on capital is one of the major problems that has to be dealt with in considering the relative positions of these cooperatives.

There is in the evidence at page 7177 a copy of a letter that was sent by the income tax authorities, to the effect that the payment of a dividend on capital precluded any company paying such dividend from taking advantage of section 4(p), and I point out that such a ruling, if it is intended to assist cooperatives, would bar all or practically all the British co-operatives, and it would bar all co-operatives in Canada organized on the Rochdale system. So we have the anomaly that an amending act which was intended, as it was said, to exempt cooperatives, has the effect of discriminating against those which, in our submission, are most nearly co-operative in their structure. It also has the effect, if the ruling is correct, of nullifying legislation passed by the sovereign legislatures of the provinces

in the field of company law, and they are sovereign in that field.

MR. PARKER: I wonder if my learned friend would pardon me if I interrupt for one moment. Was that ruling to which he refers just in respect to his particular company, or was it a general ruling?

MR. STEER: It was a general ruling, as I understand it. There seemed to have been different letters sent out at different dates, but the particular ruling to which I refer appeared on page 7177 of the evidence, and it is a letter addressed to this company.

What the effect of a ruling like that, or the effect of legislation of that sort, would be was stated quite adequately by Mr. McKay in giving evidence at Regina. I think it was at page 1269 of the Regina volume, though unfortunately I am not sure of that page number. Speaking for the Saskatchewan Federated Co-operatives Limited, Mr. McKay said:

"In due course the answer was given to the effect that the co-operatives by paying interest would lose its status. Immediately the federation, although not agreeing with the ruling, not only discontinued the practice of paying interest on the paid-up share capital of its members, but it recommended to its member associations that they also discontinue the practice".

Then he went on to say that the recommendation was in general followed, and there has been other evidence to that effect. A ruling of that sort is going to lead people who want to obtain the exemptions provided by this section, to endeavour to change their structure so as to

come within the section.

With regard to this, two things may be said. Surely we have not got to the point in this country as yet where the Dominion government sets itself against the payment of interest on capital; and, in the second place, we say that by such a ruling the treasury has lost substantial sums of money, because all those payments would have been subject to a deduction of seven per cent.

There is a more serious aspect to this question of the non-payment of interest, when you consider it in relation to the patronage dividend question. At page 6625 of the evidence it is shown that in the eighteen years from 1926 to 1943 the Saskatchewan pool paid some \$11,000,000 odd in patronage dividends. The capital of that pool amounts to some \$18,000,000. Had even the rate of five per cent interest been paid on that capital to the people who own the capital, over the eighteen-year period the sum of \$16,000,000 odd would have been paid to the owners of the capital. If that interest had been paid, the payment of those patronage dividends would have been quite impossible. Similar figures can be given with respect to the Alberta pool.

We make this comparison not in any sense in criticism of the pools and their methods of doing business. The pools are friends of this company. Their members are friends and, to a large extent, they are customers of this company. It is possible that if we sat down and discussed these questions we might agree on the fairness of our contentions. What we want to say is that we concede to the pools the liberty to do business as they see fit; and if their members are content to leave those large sums of money with them, without the payment of interest, we are quite satisfied that

it should be done. What we emphasize is that the earnings of this company ought to be on exactly the same footing as the earnings of the pools. It is the earnings in either case that are the source of the payment of both interest and patronage dividends. This company ought to have the same treatment with respect to both interest and patronage dividends paid by it as is given to the earnings of the pools, whether disbursed entirely as patronage dividends or partly so and partly as interest. In each case the business is carried on for the benefit of the farmers. Interest and patronage dividends are on the same basis in Britain, and in our submission, they ought to be so here. There is no difference in the organizations with regard to reserves. It is clear from the financial statements and from the evidence that all the pools accumulate reserves and have accumulated them in large amounts over and above the original amount of \$18,000,000 worth of capital, in the case of Saskatchewan.

There is no difference in this regard. There is no difference with regard to the payment of patronage dividends. The records of this company, as will be seen from the evidence, and the records of the Alberta Pool, are very similar. Saskatchewan has a little more consistent record, but even in the Saskatchewan record there are gaps. What we say is that there is no difference between our record and the record of any of the pools which justifies discrimination.

THE CHAIRMAN: Mr. Steer, up to this point I have not heard you mention the line elevators from the point of view of discrimination. Do you propose to touch on that point?

MR. STEER: Yes, sir, I propose to deal with that; and I may say here that in dealing with that problem your commission, it seems to me, has first of all to decide what should be the attitude of taxing authorities toward the co-operative movement. If the co-operative movement is entitled to concessions, which I suppose is a matter of high government policy -- and we have given reasons in the brief as to why we think they should not be fully taxed -- if the government comes to the conclusion that the co-operatives are entitled to concessions, our case is that we are entitled to those same concessions. However, I will deal with that in perhaps a little more detail later on.

Now I want to say a word with regard to the non-member business. Saskatchewan claims that it has less than ten per cent of its business with non-members. Alberta makes the same claim. We are not able to make that claim, particularly since 1942, for reasons which were given in the brief; but our suggestion is that this question of non-member business is not a matter of great importance. Non-member business is a matter of little importance, particularly if devices may be adopted which will make membership automatic. That appears to be the situation in the Manitoba Pool. A man who delivers grain signs a piece of paper, and nothing else. He thereby becomes a member. It may be that there is no reason why membership should not be automatic.

THE CHAIRMAN: Would you refer to that as a device?

MR. STEER: Yes, sir; that is the word I use. Perhaps automatic membership would be desirable. Fay, in his book, the 1939 edition at page 44, describes it as being a matter of some importance that co-operatives are able to attract customers, because the customers who come in become their

members.

MR. ARNASON: When you are referring to automatic membership based on patronage, would that in your opinion presuppose equal treatment to the non-member patron as well as to the member, in comparison with the member?

MR. STEER: Yes, I gather that is so. Whether it is in practice, I do not know.

MR. ARNASON: Is it your point that you think it should be?

MR. STEER: No, I do not know whether or not it ought to be. It may be that you ought to have automatic membership. If you have, you make a mockery of anything that is in section 4(p). Section 4(p) was drafted with the idea of a real, substantial interest of the member in the organization.

There are two points of view with regard to it, and I am not advocating either one. I simply call attention to the act that there is not any difference between the organization of these companies on the basis of membership that will give a just cause for a discrimination in respect to taxation. That is the point.

Then I say that with regard to business methods there are no differences. Each of the four corporations operates in exactly the same way as the others. They all operate public, country and terminal elevators. They handle and store grain in the same way, under identical tariffs. They operate as track buyers and commission merchants. They act as agents for the wheat board. They generally perform the same merchandising functions under exactly the same conditions.

May I refer you to a little of the evidence in that regard. Mr. Purdy, at page 6998, describes that merchandising function. He says:

"Q. Wheat and flax are now covered entirely by these wheat board contracts; is that correct?

A. That is correct.

"Q. And as far as the function of an elevator company goes with respect to that contract, it is a warehouseman? A. Correct.

"Q. And it does not have any trading function at all? A. No.

"Q. With regard to coarse grains and with regard to the grain trade, apart from dealing with the wheat board, the situation is quite different, as I understand it. You, as an elevator company, go into the country and buy the grain at the country elevator point. It then becomes your property? A. That is right.

"Q. And you, as a merchant, have to decide into what position you are going to put that grain; that is, whether you are going to send it to Vancouver or whether you are going to send it to Winnipeg. And whether you decide on Winnipeg or Vancouver may mean gain or gains or losses of a considerable amount to you. Am I right in that? A. I would not say considerable loss. It is a risk, some risk.

"Q. Losses which could not possibly be covered by any hedging operations of yours? A. That is true.

"Q. So that in dealings which are not controlled by the wheat board there is a very important merchandising function to be performed by the elevator operator?

A. That is true.

"Q. So that in dealings which are not controlled by the wheat board there is a very important merchandising

function to be performed by the elevator operator?

A. That is correct."

That is the evidence of an elevator operator. Mr. Wesson, for the Saskatchewan Pool, had this to say:

"With the release of pool members from their contracts in 1931, the elevator company, in addition to performing the above services, adopted the policy of buying grain from pool members and others who made delivery to its country elevators and who desired to sell rather than to store or pool their grain."

Then again, at page 6705, in answer to a question by Mr. Fillmore, Mr. Wesson had this to say:

"Q. Just to shorten it, say from 1931 to 1935, until the Canadian Wheat Board came into existence, did Pool Elevators Limited have earnings from handling grain on commission, and from buying and selling grain?"

"A. Yes, sir, of course we did. We had to pay our operating costs from something."

Mr. Law gives evidence to the same effect. They all carry on business in the same way; and the only man who disputed the proposition appears to have been Mr. W. J. Parker, from the Manitoba Pool, who had this to say, at page 7077:

"We do not in our opinion purchase grain. We give an initial payment. What the final payment may be we do not know until the grain is actually disposed of."

But when Mr. Parker was questioned closely it transpired that what he called an initial payment was the going market price; and in our submission the going market price that is paid to a farmer when he comes to an elevator concludes that transaction, whether he gets anything more

over and above that going market price later on, because that is a matter between him and the corporation that is carrying on the business for him.

Perhaps I should remark here that in our submission the discussion that took place between Professor McDougall and my learned friend Mr. Parker this morning may have been based on somewhat of a misconception. My idea is that Mr. Parker was talking to Professor McDougall about the original contract pool type of transaction. He was not talking about the way in which these grain companies carry on business to-day. That original contract pool type of transaction was declared by the Supreme Court, in the judgment with which you are all familiar, to be a contract which entitled the grower to the full return of the proceeds on his grain less expenses and reserves; and it struck me that when that discussion was taking place it was that type of contract that was being discussed and not the type of transaction that these gentlemen have been talking about.

MR. PARKER: In order that my learned friend will not be misled, I cannot say what was in Professor McDougall's mind, but what was in my own mind when I put the question was not a matter of restricting it to those contracts at all. I was thinking of the general system of carrying on.

MR. STEER: Well, I question very much whether it is conceivable that since 1931 the type of transaction which my learned friend put to Professor McDougall could occur, except under some contract pooling device.

Now I propose to say a word or two on section 4(p). In England we have got apparently a simple and straightforward situation. There is no attempt to set up any standard of membership in these societies. There is no limit placed

upon the amount of trading with non-members. There is no definition of what should be the necessary reserves to be set up. They are left free as to that. There is no definition of any authority to pay patronage dividends. Co-operatives are exempt to the extent that they pay them, and other corporations are also exempt to the extent that they pay them. The result is a pretty uniform of organization.

The evidence has disclosed in Canada a very confused situation. There are many different types of organization, their nature to some extent dictated by a desire to bring themselves within section 4(p), when their original type of organization would not come within it.

This section 4(p) appears to have been passed with the Fraser Valley decision and the contract pools in mind. It is the Fraser Valley decision which probably accounts for the use in the section itself of the phrase, "with or without share capital." A producers' organization with or without share capital is entitled to exemption from income tax in certain circumstances. The use of those words makes it a bit mystifying why the income tax department should have made the ruling that it did make, to the effect that if you pay dividends on that share capital, the existence of which was recognized by the section itself, then you could not qualify for the treatment designed for you by the section.

The only co-operatives who appear to be entirely satisfied with section 4(p) appear to be the agency ones. They perhaps do not need the protection of the section. I think the Supreme Court decision demonstrates that. The Co-operative Union found it unsatisfactory, as Mr. Good's evidence and the recommendations accompanying his brief show.

So if complete exemption is the objective of co-operatives, it seems to us that section would have to be differently drawn. If the object is complete exemption of co-operatives, we must have at least a definition of a co-operative and, as a corollary, a definition of a member; and I ask you gentlemen, with the evidence that was given before this body, what definition of a co-operative could be designed that would include them all, and how are you going to define a member in a way that would suit them all?

In consumers' organizations, you have some uniformity. Some of them are organized on share capital; some of them, but not all, pay interest, but their general organization is fairly uniform. It is in producers' organizations that we see the wide differences, with a growing tendency toward automatic membership.

Automatic membership is an extremely convenient device. It saves organization expense. It eliminates the problem of non-member business; and yet, as I pointed out, it makes a mockery of the provision of section 4(p). In addition, it creates an injustice for the cooperative which has a real membership qualification and must adhere to that membership qualification.

You had some evidence given with regard to the Madawaska organization, at page 4186. That organization has affiliate members. The Northern Alberta Dairy Pool has associate members. Having in mind what has been said as to what really constitutes a co-operative, one wonders whether the affiliate membership on the one hand or the associate membership on the other is really any objection to these organizations being regarded as co-operatives.

The difficulty in agreeing upon a definition is perhaps

best illustrated by a difficulty which the Co-operative Union had in preparing its submission. The evidence disclosed that it was only a few days before that evidence was given that the individuals who attended that conference could agree. Then it is seen that the submission itself was not sent to the member body, and it is highly doubtful, it seems to us, as to whether it would be agreed to by all of them. Certainly it would not be agreed to by this company.

The definition that is submitted in the brief of the Co-operative Union would, in our view, exclude from co-operative status not only this company but all the British co-operatives as well. The reason we say that is that it presupposes that surpluses must be allocated. That is something, as Mr. Law pointed out, in which this company does not believe, and it is something which is not done in practice in Britain, as the Commission has discovered.

To attempt to formulate any definition which would lead to tax exemption, on the part of this Commission or on the part of the statute-making body which perhaps may have to act on your report,-- to attempt to formulate a definition would simply be to prescribe a pattern to which co-operatives must conform, whether or not such pattern is suitable in the circumstances. This, in our submission, would be simply to repeat the mistake that was made when section 4(p) was enacted. To prescribe such a pattern undoubtedly would lead to injustice. Suppose, for example, that we decided that the membership basis was the proper basis of organization, and not share capital. I suppose there are many small organizations which could change their set-up so as to comply. It would not be possible, as we see it, for an organization of our character to do that.

The solution, in our submission, lies in other directions than in those proposals of the Co-operative Union. Our view as to the solution is given in the brief at pages 33 to 37, and in the evidence at pages 7186 to 7193. It seemed to us that there were two extremes; that the logical solution at the one end was the abolition of all corporate income tax and the adoption of the British system as described in Konstan's book. The Commission will find a very good description of that in Konstan at page 320. I have already discussed how the co-operatives are dealt with under that system, and I submit to you that it would be quite within the terms of the order in council setting up this Commission for you to make that recommendation if you saw fit to do so.

At the same time we realize that the need for revenue is so great at the present time that it might not be a practicable solution of the problem, but there is that solution at the one end which in our submission is the ideal solution; the abolition of corporate income tax altogether. At the other end there is the complete taxation of all cooperative income. That is not done in the United States; it is not done in Great Britain, and we have given, at page 36 of our brief, the reasons why we think it should not be done in Canada. I will not weary the Commission by discussing the reasons given there, as to why this solution should not be adopted.

It follows then, that if neither of these extreme courses should be adopted, some middle ground has to be found. We have suggested -- and may I say that before putting those suggestions forward consideration was given

to a good many other ways in which perhaps a solution might be found. Those were rejected for one reason or another, and we have put before you our suggestions as to how some middle ground between these extremes might be reached.

We say in the first place that the exemption of patronage dividends is sound. Such dividends are exempt in Britain, and there is no reason why they should not be exempt here, no matter whether paid by a co-operative company or, as we suggest, paid by any other corporation. If a company chooses out of its profits to make a return to its customers, it matters not whether it is a co-operative or any other kind of corporation, it ought to be free to do so here, as it is in Britain.

We want to emphasize, however, that the exemption of patronage dividends, or permitting patronage dividends to be charged up to expense, is not a solution of our difficulties, because we are a company which has to pay fixed dividends on stock, and we are in competition with organizations which pay no such dividends and, further, which pay no interest on their loan capital.

Our submission is that interest, whether paid on loan capital or paid as a fixed, maximum reasonable rate on common or preferred stock, ought to be treated alike and allowed as an expense, as appears to be done in Britain.

Even this, however, is not a complete solution, since the Company which does pay interest would still be at a competitive disadvantage with the company that does not. I suppose it is obvious why this should be so. It may be that if interest were allowed as an expense it would be paid in every case, and under those circumstances the difficulty would be removed; but if that should not result, then we ask

you to consider a couple of ways in which the situation might be remedied.

It might be remedied by treating interest not paid under those circumstances as a real profit, and subject to tax; or, while we have not made this particular suggestion in our brief, it might be that you would consider that the income tax authorities or a board of referees should have the right to consider a situation of that sort and determine what the tax position should be.

MR. ARNASON: Mr. Steer, just in connection with that first statement, about the non-payment of interest; did you mean where interest might be declared and yet not paid to the shareholders? Is that what you had in mind?

MR. STEER: No, I had not conceived that situation. My understanding of this position is that in Alberta no interest has ever been declared or paid on this large amount of capital they have. In Saskatchewan they paid it up until 1930, and then discontinued it until 1943. Then in 1943 and 1944 they paid three per cent. It is that kind of interest payment I am talking about. It may be that you, Mr. Commissioner, have in mind the allocation of reserves. I do not know.

MR. ARNASON: I wanted to be clear in my understanding of your suggestion.

MR. ELLIOTT: Mr. Steer, did you not say that you thought interest payments should be deductible, the same as in England and the United States?

MR. STEER: Interest payments should be deductible as an expense, yes, sir. That is what I am saying now.

MR. ELLIOTT: I thought you said that they should be subject to tax, or that tax should be computed upon them.

MR. STEER: Oh, no, sir.

THE CHAIRMAN: When not paid.

MR. ELLIOTT: That is what I mean.

MR. STEER: I say in the first place we should be in the same position in this country, in respect to co-operatives, as they are in Britain; and that as a corporation we should not be taxed with respect to patronage dividends paid nor with respect to interest paid. Now, then, I say that our situation is not remedied if you go no further than to exempt patronage dividends. I say that to give us a fair deal you have to allow us to treat not only patronage dividends as an expense but to have to allow us to treat the interest that we pay as an expense. Then I say that even that does not put us on a footing of full equality, because we are still at a disadvantage competitively with, to use an example, the Saskatchewan Pool, which has \$18,000,000 of capital on which it pays no interest. We are at a disadvantage competing with them, and I simply invite your consideration of a couple of ways in which perhaps that inequality might be remedied: first, either by saying that not having paid interest, that is a profit which might be subject to tax; or, secondly, putting it in the hands of some board to determine what the tax position ought to be under those circumstances.

MR. NADEAU: Would you be prepared to recommend that it would be advisable to define patronage dividend to exclude any element of profit from it?

MR. STEER: I think I would suggest that what is desirable is simplicity; and from this point of view I know of nothing that is simpler or more easily administered than the English law. That seems to be quite adequate.

THE CHAIRMAN: There are some other reasons for that than

the simplicity of it. There is only one form of registration in England, under one act. The whole point in regard to a co-operative in England is the registration. Once that is accomplished and accepted, that is all there is to be done. The registrar has the right to revise and correct co-operatives who wander from the straight path, but once they are registered under that act, that is all there is to it.

MR. STEER: Yes, but am I not right in this, that another corporation can pay patronage dividends if it sees fit?

THE CHAIRMAN: I think we heard of one having thirty-nine stores, an organization called Williams, I think, in London, who does pay a patronage dividend and has it allowed as a deduction.

MR. STEER: I gathered from my reading of Konstan and what legislation is set out there pretty fully, that a company would have the power to pay it if it saw fit to do so.

MR. ELLIOTT: There is one point. Why do you consider it a competitive advantage that the Saskatchewan Pool should pay its members by way of patronage dividend rather than by way of interest on reserves? I am not clear on that.

MR. STEER: If they pay out all their earnings by way of patronage dividends, of course they have nothing left with which to carry on the business, and I think they could not last very long. What they actually do is retain very large sums to add to their general reserves, which in my submission should be regarded as their capital. If they have that capital free of any payment for it, whereas in our concern we have to pay for our capital,

I suggest that they can carry on business cheaper and have an advantage over us competitively by reason of that failure to pay interest. Of course if they carry on in another way entirely and pay out and do not retain anything, of course my argument falls to the ground.

MR. ELLIOTT: You are regarding the patronage dividend payments, then, as being an increase in the price paid to members for the product, and not as being in any sense a distribution of profit?

MR. STEER: That is right, sir. I think I should say this, that I doubt if you would find any trade where this question of close and direct competition assumes the importance that it does in the grain trade. What I suggest is that if we give a reasonable solution with respect to the grain trade, we will have gone a long way toward relieving you from that problem which was assigned to you when you were directed to inquire into the close and direct competition between co-operatives and those carrying on business by analogous methods.

Our proposals eliminate any question of percentage of business or amount of reserves or definition of membership or difficulties about patronage dividend. They are fair to competitors, since if they choose to share their profits with patrons they are exempt too, and in our submission depart in no way from true co-operative principles. This company realizes, and it is obvious from the proposals that we have submitted, that we are in direct competition not only with the pools but with a large number of other elevator companies. We gave you our proposals in part B because we ask for no special treatment against the independent elevator companies, any more than we are content to have special treatment given to the pools as against us. This company

asks for a fair field and no favours. It wants the government to keep the lists fairly as between competitors whose submissions show no sound reason why they should not be on a footing of equality. Mr. Law stated the position of this company at page 7244 in quite satisfactory terms, when he said:

"The trouble, as I see it, is to find some way of getting rid of at least the worst cases of discrimination which at present seem to exist. And they exist in certain fields, and particularly in the grain business. As we say here, -

"pending such time as the government can see its way clear to adopt the British system ..."

"We suggest that some board, such as a board of referees, might function as a kind of house of refuge, or something like that, to whom representatives of the companies in direct and close competition with the cooperative activities can show good cause for some treatment, pending some perhaps better and more suitable disposition of the problem to get some relief of some kind."

Then, being asked whether this plan would apply only to cases where gross discrimination appeared, his answer was:

"Yes, and I suppose the worst cases to be found are found in the grain business of western Canada."

We submit that we have made the case we undertook to make, namely that we are a cooperative; that we have been discriminated against in the matter of taxation, and that there is no real ground for such discrimination. We recognize the need for large government revenues at this time, but we say they ought to be raised within the recognized

rules of taxation. One of those rules is that taxes should bear evenly on those able to pay. There cannot be said to be less ability to pay in the pools than there is in our company. They escape; we pay. You may read the evidence from end to end, and you will discover no reason in logic or common sense why any different principle of taxation should be applied to this company than to its direct competitors. We go further and say that if in the public interest there is sound ground for making tax concessions to co-operatives -- and there may be such grounds; we dealt with that in our brief -- if in the public interest there is sound ground for making tax concessions to co-operatives, then we say that this company has demonstrated its right to be treated in the same way as any competing co-operative.

MR. NADEAU: When you say that you are prepared to recommend that patronage dividends be allowed as deductions, do you mean patronage dividends actually paid or only allocated?

MR. STEER: Our position was made quite clear in the evidence given by Mr. Law. From our point of view we do not believe in the allocation of reserves as dividends.

MR. NADEAU: Allocation is not payment?

MR. STEER: That is our belief, with respect to our business. Do not misunderstand me; I am not objecting to other people allocating them if they want to do so.

MR. VAUGHAN: Mr. Steer, could you tell us exactly what the reasons are for the income tax department not allowing the exemption for your company, or discontinuing your exemption?

MR. STEER: No, sir.

MR. VAUGHAN: There was no statement made as to why

that was done?

MR. STEER: No, sir. They have taken an inconsistent attitude, as I read the record. Once upon a time they said we were exempt, and then they changed their minds, apparently upon a ruling by the Department of Justice.

MR. VAUGHAN: And gave no reasons at all?

MR. STEER: No reasons that I have seen.

THE CHAIRMAN: You have accepted those reasons?

MR. STEER: Yes. As a matter of fact I think I am right in this, that we made up our minds in the first instance that section 4(p) had no application to us.

THE CHAIRMAN: That is what I understood you to say in the earlier parts of your argument.

MR. STEER: Yes, sir; and I think perhaps as a matter of law the company may have been right in its view.

MR. PARKER: My learned friend made some reference to section 4(p) as having had some connection with the Fraser Valley case. Would he care to go a little further and tell us just why section 4(p) was passed?

MR. STEER: I can only guess, but the Fraser Valley decision was to this effect, that the income of that Fraser Valley Milk Producers' Company was liable to tax because they paid dividends on their capital. Then for some reason it was after that decision that this section 4(p) was enacted.

MR. PARKER: Then was there a connection with the Fraser Valley case?

MR. STEER: I am told that there was, but I do not know. If that is the ground on which the decision was given in the Fraser Valley case, it is rather mystifying, as I say, why those words "with or without share capital" were put in there;

but I am told also, and I understand that evidence was given at Vancouver, that following the amendment to the act the Fraser Valley Company was not asked to pay those taxes that had been imposed and held by the Supreme Court to be properly imposed. They were not asked to pay them because of the intervening amendment. Whether that is the position I am not sure.

MR. MILLIKEN: I presume this would not be evidence, but if it would be of interest to the Commission I can supply a copy of a memorandum which was submitted to the government by the delegation that waited on the government asking for section 4(p) to be passed. Our organization was not represented, and I was not there, but I have a copy of the memorandum which was submitted to the government by the co-operative delegation at that time. I do not have it here, but it is at home and if it is of any interest to you I am quite prepared to send it to you.

THE CHAIRMAN: Time is pressing, Mr. Milliken, as you know.

MR. MILLIKEN: I am not suggesting that it would be of any value to you, sir.

MR. ELLIOTT: I take it, Mr. Steer, that you are not entirely in love with your proposal that as an interim or half-way measure the co-operatives and their direct competitors be treated specially and differently from other corporations?

MR. STEER: I am not in love with it, but I can justify it, it seems to me, on this ground; that you first start with the proposition that this cooperative movement is going to be entitled to some consideration. When you are seeking for a middle ground it seems to me that if you deal with the grain trade you probably remove the greatest difficulty. As for as any industrial corporation in Ontario or in eastern Canada

complaining that a competitor of a grain elevator company gets a little concession with respect to interest on its share capital, I say that it does not lie very sweetly in the mouths of those people, especially when they have got tariff protection, to take that position as against the farmer in the west.

THE CHAIRMAN: You had better not open up that field, Mr. Steer.

MR. STEER: I would not think so.

MR. PARKER: I thought before he sat down Mr. Steer intended to go a little further into the question, assuming that his company and the three pools are all well within section 4(p), as to what effect that would have and how competition would measure up between the four of them and the line elevators. I thought he was going to elaborate on that.

MR. STEER: I cannot add anything to the suggestions which were made in that regard in the brief. I think we have gone as far as we can to assist you there.

THE CHAIRMAN: I see the difficulty, undoubtedly, Mr. Steer. I think we will have to let that lie there. We know the other point of view. I think that is all we have to ask you, Mr. Steer, thank you. Now, Mr. Parker, what have you next?

MR. PARKER: I do not see Mr. Porter present.

MR. MILLIKEN: I understand he is not presenting any oral argument.

THE CHAIRMAN: Mr. Porter told me this morning he was just going to set out some headings of argument and then put them on paper and let us have them.

MR. MILLIKEN: I am under the impression that he is going

to do that in writing.

THE CHAIRMAN: I understood him to intimate this morning that he would set out the headings of his argument. What have we now in the way of argument?

MR. PARKER: We can call him, so to speak, and if he does not wish to address the Commissioners then we are ready to hear Mr. Francis.

THE CHAIRMAN: That is the only other oral argument, is it?

MR. PARKER: The only one of which I have any knowledge.

THE CHAIRMAN: Then I think we might take a recess for a few minutes, and perhaps Mr. Milliken will try to get in touch with him in the meantime and see if he does want to say anything.

Upon resuming:

MR. PARKER: Mr. Chairman, inasmuch as there is only one more argument to be made, that of Mr. Francis; and considering the experiences of the day, my suggestion is that perhaps we had better adjourn at this time and give Mr. Francis the floor to-morrow morning. He assures me that he can finish well within the time limit of two days.

THE CHAIRMAN: As long as you are sure you can finish by Friday.

MR. FRANCIS: I think I can assure you of that. There is one statement I should like to make. To-morrow I propose at some stage to deal briefly with the arguments submitted by Mr. Locke of Vancouver. Those were written arguments filed with the Commission, a copy of which were sent to me. I mention this because I thought it might be

convenient if you had available before you copies of that argument.

THE CHAIRMAN: That is the recent argument?

MR. FRANCIS: Yes, sir. I expect to refer to that, and I thought I should mention it.

THE CHAIRMAN: Yes; we have it here.

MR. MILLIKEN: I have not any authority to speak for Mr. Porter, but I assume that he may want to come along in the morning and make a short statement before Mr. Francis commences. Frankly I do not think he does, but I will get in touch with him this evening.

THE CHAIRMAN: Thank you. Then we will adjourn now until ten o'clock to-morrow morning.

At 3.30 p.m. the Commission adjourned until Thursday, July 26, at 10 a.m.

ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative positions of persons engaged in business directly competitive therewith, met in Ottawa on Thursday, July 26, 1945, for the hearing of oral argument.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON	}	Commissioners
G. A. ELLIOTT		
J. M. NADEAU		
J. J. VAUGHAN		

Eugene T. Parker, K.C. Counsel

Major H. D. Woods	}	Associate Registrars
J. A. Chapdelaine		

Colonel G. W. Ross Executive Secretary

APPEARANCES:

W. B. Francis	Group of Co-operative Associations
R. H. Milliken, K.C.	Saskatchewan Co-operatives
M. M. Porter	Alberta Wheat Pool
G. H. Steer, K.C.	United Grain Growers
W. B. Scott, K.C.	Canadian Chamber of Commerce
Prof. J. L. McDougall	Canadian Retail Federation

The Commission met at 10 a.m.

THE CHAIRMAN: What is the order of business, Mr. Parker?

MR. PARKER: Mr. Francis, I believe, wishes to address the Commission.

Argument on behalf of
Certain Credit Unions

MR. W. B. FRANCIS: May it please your lordship and members of the Commission, I first propose to submit to you a brief argument on behalf of Credit Unions. I happen to represent nearly all of the credit unions in Canada apart from those found in the province of Quebec. In that province the credit unions are represented by Senator Vaillancourt, and he has been kind enough to supply me with a copy of his argument which he has filed with you. Within the last day or two I have been able to get a translation of that argument and to examine it. The submissions that are being made by Senator Vaillancourt and by myself, I find, although prepared separately, are very much alike, that is to say the key-note, if I may put it that way, is the same. I should like if I may to adopt on behalf of the credit unions which I represent certain arguments and submissions which Senator Vaillancourt has put before you. Throughout his submission he has stressed the benefits that have accrued to the labour and agricultural classes through credit unions. He has pointed out certain outstanding features of the credit union movement which, I suggest to you, are worthy of note -- the simplicity and efficiency of the mechanism in the first place and, secondly, their proximity to the credit needs which they are called upon to satisfy, and in the third place

their intimate knowledge of the localities and of the users, the members. With these attributes, it is pointed out in that brief, the credit unions have been able to do what no one of the following has been able to do -- private profit business, government-operated business, and laws designed to prevent certain unfortunate practices. All these things have been attempted by other agencies or other instruments and they have been successfully done to some extent by the credit unions. He points out that the credit unions complete the deficiencies in the banking system and to a great extent and I am very happy to refer to the argument, which I suggest is worthy of your most careful study.

From the experience we have had with the credit union movement I do not think the subject is as controversial as perhaps other branches of your problem and therefore I do not propose to take very much time. I hope to follow very closely the outline which I have supplied to you.

I may say with regard to these outlines that they were prepared for my own use originally because it occurred to me that if I had an outline I could welcome much more readily interruptions from members of the Commission and then return to the outline. May I say, therefore, that I would welcome at any time interruptions because I can return to the outline so as to give some sort of continuity to the argument which I propose to present.

The Commission has been asked to inquire into the present position of co-operatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940.

It is stated in the preamble to the Terms of Reference that the word "co-operatives" includes organizations organized

and operated on a mutual basis, and organizations claiming so to be organized. It has been assumed at the public hearings that credit unions came within the Terms of Reference, and it is therefore necessary to consider the present position of credit unions.

I have assumed that credit unions come within the Terms of Reference and I need not dwell on that.

1. Section 4(q) of the Income War Tax Act.

Attention is first directed to the language used in section 4(q) which reads as follows:

"The income of any banking institution organized under co-operative provincial legislation, which derives its revenues from loans made primarily to members residing within the territorial limits within the province to which the institution is restricted for the carrying on of its business."

It is worthy of note that, at the time that this section was enacted by section 2 of Chapter 24 of the Statutes of Canada, 1930, and assented to on May 30, 1930, practically the only credit unions in Canada were in the Province of Quebec where they were known as People's Banks. There were also a number in the Province of Ontario.

The first credit union was organized in Quebec in 1900 but the first legislation was not enacted until 1906. In Ontario the first credit union was organized in 1908, but there was no legislation there until 1922. Just to indicate how limited the movement was at the time of the enactment of 4(q) I would point out that up to 1930 there was not a credit union in any province except in Quebec where there were 179, and in Ontario where there were 15 as shown by the statistics of the marketing service.

The section uses the term "banking institutions" instead of credit union. However, as legislation has been passed in

other provinces, and the name "credit union" has received a wider use throughout Canada, the practice has been to regard credit unions as coming within the provisions of section 4(q).

It will further be noted that the exemption applies to an institution which derives its revenue from loans made primarily to members. It is suggested that the word "primarily" in this section has the dictionary meaning of "chiefly" and it will be noted that in the credit union legislation, of which the Commission has full knowledge, loans are restricted to members. The only variation of this practice is that certain investments are made in securities, but primarily loans are made to members. The fact that certain investment loans are made would not destroy the effect of the exemption.

My submission is that the fact that certain loans were made, victory loans and the like, as permitted under section 4(q) does not destroy the exemption, and up to date credit unions have been within the scope of 4(q). In the reprint from the Economic Annalist of February 1941, there is a summary of legislation in Canada dealing with powers of investment and the point is that it is very limited. It is limited to \$5,000. That will be found on page 4. This document is quite useful because it gives a complete summary of the legislation in Canada with regard to credit unions, and the point I make now is that the power of the credit unions to invest, apart from making loans to members, is quite limited. In the provincial statutes there are very drastic limitations, and making a survey of the law of Canada, one finds that while primarily the purpose is to make loans to members, investment is incidental. I will develop that point later.

If Parliament had intended to limit loans strictly to members it would not have used the word "primarily". The

inclusion of the word suggests that a limited amount could be loaned to other than members such as the Government for victory bonds. This is the view which has apparently been adopted in practice to date.

The word "members" is not defined and, although the use of the word "residing" may throw some doubt on the matter, it is submitted that those credit unions which have corporate members are still within section 4(q). It is also submitted that section 4(q) is open to the interpretation which may include federations of credit unions, or federations of credit unions and other non-profit organizations, such as co-operatives. Such a federation comes within the terms "any banking institution organized under co-operative provincial legislation which derives its revenues from loans made primarily to members". The only limitation is that these members must be within the territorial limits to which the institution is restricted for the carrying on of its business. It is submitted that the fact that the institution may do business throughout a particular province does not disqualify it.

There is for example the society in British Columbia and there is the Saskatchewan Co-Operative Credit Society. That society you will remember was incorporated by special act of the legislature. It accepts as members credit unions and co-operative associations and it serves as a clearing house for the funds of the two, and the relationship of the Credit Union to the Society is very similar to the relationship of the individual member to the credit union. I submit that that type of organization, in view of the language used in 4(q), is such that it is covered. There may be other non-profit organizations that wish to join. There is a demand at the present time that municipalities be permitted to make use of these organizations and my information is that in the province of Quebec

municipalities do make use of the Federation of Credit Unions. That demand is rising in the province of Saskatchewan any way, much in the same way as it has done in the province of Quebec, because in so many matters we do take our lead from the province in which credit unions had their origin and where they have shown such development. Although the credit society does business throughout the entire province, I submit that it still comes within 4(q).

The scope of 4(q) is very wide under any reasonable interpretation. Furthermore, apart from the actual wording of 4(q) it is submitted that a credit union is mutual in its nature, dealing only with members and controlled by its members. The practice is followed by some credit unions in all provinces of paying borrower dividends, which is a co-operative feature which has been combined with the mutual feature.

I use the word "co-operative" in the sense that that is the popular conception of patronage dividends and it is being introduced into the credit union field. To give you an example of what is taking place there I would refer you to the last report of the Department of Co-Operation and Co-Operative Development, 1944, at page 3. The point is that originally a great many credit unions returned benefits on the basis of interest on so-called shares or by reduction of that interest on shares, but development is taking place and this applies to other provinces as well, whereby certain benefits are paid back directly to the borrower in the form of what might be called patronage dividends. That is, he gets a rebate on the basis of interest paid, not only on deposits, and that is an attempt, I suggest, to arrive at perfect equity in the use of the benefits which members derive from the credit union.

I believe it is 10 per cent in the province of Quebec. A good deal has been said in the evidence about the interest rate. It has been suggested that one per cent per month is very high and one counsel in cross-examining a witness wished to know whether the Usury Act was not being violated, and so on. I shall deal with that too. In the urban co-operatives, in Saskatchewan at any rate, the rate is one per cent per month, and in the rural areas approximately two-thirds of one per cent per month. We shall see what the Parliamentary Committee had to say about interest rates. These credit unions, in acquiring their experience, adapt their mechanism to what they deem to be equitable, and whether they pay back in interest rates on deposits or shares or borrower dividends is a matter that is governed by experience.

It is next necessary to consider briefly the organization and business methods of operation of credit unions under Clause (b) of the Terms of Reference.

Organization of Business Methods:

A fairly satisfactory description of what a credit union is is found in the evidence of Mr. Burns (1-345).

'Briefly defined, a credit union is an association of persons united by some common bond or community of interest, such as common employment, business association, geographical location, common religion or common racial origin, joined together in a mutual endeavour for the following purposes:

(a) To encourage thrift by providing a safe, convenient and attractive medium for the investment of the savings of its members through a systematic plan of saving.

(b) To promote industry, eliminate usury and increase the purchasing power of its members by enabling them to make

use of these joint savings in the form of individual loans to themselves at reasonable rates of interest for productive and provident purposes.

(c) To educate themselves in the importance of thrift and the care of savings, thereby training themselves in business methods and self-government and bringing to themselves a realization of the value of united democratic effort."

It may be said with regard to this definition, "Here is a type of co-operative that has not open membership." There again experience should govern. The credit union has open membership to those whom it can benefit. That is the test. It is a device of such a nature that it operates only under certain conditions and there must be a feeling of confidence among the members before a credit union can properly function. As to the expression "united democratic effort", bringing that down to earth it simply means that the members gradually learn what they can do for themselves by accepting joint responsibility. In plain terms, that is what is meant.

The essential point of credit union theory and practice is to enable people to help themselves when help is needed.

As to the function that a credit union fills, it is interesting to refer to the evidence of Mr. Sinclair (V-1550).

The business methods and operations of credit unions are fairly uniform throughout Canada, and the evidence before the Commission is clear, and need not be reviewed. It is only necessary to point out that the formula used is a device that has been successful, involving as it does, management by a board of directors, granting of all credit by a separate committee and supervision by another committee independent from the board and credit committee. This method has the

effect of educating the members in finance, and, also serving as a check on improper and careless practices.

That is the point that Senator Vaillancourt labours, that is, that it seems to be a device that ensures protection to the members.

The loss record of credit unions is very striking according to the evidence. One matter which might be regarded^{as}/relevant under Clause (b) of the Terms of Reference is the matter of investment loans. In nearly all provinces in Canada where evidence has been heard, it has been shown that these investment loans are regarded as of a temporary nature, because of the short supply of consumer goods.

MR. PARKER: Do you say that is true in Quebec?

MR. FRANCIS: In nearly all the provinces. I am not acting for Quebec. I did go there to study the credit union situation in that province at first-hand, but I am not acting for Quebec, and I am not sufficiently acquainted with the situation there to deal with it. Senator Vaillancourt has adequately dealt with it.

The witnesses have stated that in normal times funds, which have been invested in Victory bonds, would have been required by the members for productive and provident purposes.

From a practical standpoint it is of great importance that a financial institution, such as a credit union, should make wise use of its resources for the benefit of its members and a reasonable margin for investment should be permitted. This would insure the permanency of the institution. Contrasted with co-operatives the record in this regard is good. In Saskatchewan of 1415 co-operatives incorporated since 1914, 605 have ceased to exist. Of 160 credit unions, incorporated since 1937, none have been dissolved. (Turner IV - 1118).

Looking at Canada as a whole it is true that credit unions are new. In British Columbia, out of 140, about 20 have ceased to exist. Some of these never became active because they never got properly organized. I suggest that, so far as British Columbia is concerned, this is due to the fact that there has not been close and sympathetic supervision such as credit unions require. And if I may respectfully do so, I would suggest what it seems to me is a proper recommendation on the part of this Commission. I suggest that the Commission might emphasize the importance of close governmental supervision of this type of organization in the public interest, because I think we can see from our survey of the Canadian scene, not only as regards credit unions but also as regards co-operatives, that where you have had well-informed and devoted public servants in charge of this type of public or semi-public activity, you have a good record and where you have not had such management the record is not so good. In Alberta the record as regards permanency is good. In Saskatchewan it is excellent. In Manitoba, out of about 100 credit unions, I believe that less than 10 have become inactive, but they were never really in operation. They never got going. There was misunderstanding with regard to certain credit unions. Some people do not realize that you need a certain kind of soil in which the credit union can flourish and some mistakes were made in the obtaining of charters. That is one respect in which an improvement can be brought about by means of governmental supervision. In Quebec, a very small percentage have become inactive. Supervision is now sound. Supervision in Quebec is rather interesting, if I may refer to that province. Supervision is carried on by the central credit union group but it is paid for by the government. There is close and excellent supervision. In the maritimes the

record is quite good in this regard. You have evidence that seems to point in this direction, that we have found a device which will work; and we have discovered a type of institution to serve various communities and which will survive, a type of institution that has the seeds of growth and the inherent ability to establish itself permanently.

From the legal position it is interesting to refer to the case of *Niles v. Central Mfrs. Mutual Insurance Company*, (252 F. 564, 566) referred to in *Legal Phases of Co-operative*, L. S. Hålbirt.

MR. PARKER: Is this a quotation from the decision itself or from the author's own views?

MR. FRANCIS: I have not the reference but I am quite sure it is from the decision. I shall have that checked but I think you will find that it is from the decision.

"An association does not cease to be co-operative because interest is earned, or because its money is prudently invested when not required for the normal operations of the co-operative. To hold otherwise would be to penalize thrift and good business management. A mere incidental profit by way of interest on its invested safety funds does not change the purely mutual character of the company, or indicate that its business through thus earning a profit is carried on for profit."

If a credit union comes within the provisions of 4(q) its entire income is exempt.

MR. NADEAU: While we are on this subject of investments, I believe the Co-operative League of Canada has made the suggestion, in regard to the co-operatives, that they might pay income tax on their investments. Do you think the same system should be applied to credit unions as well?

MR. FRANCIS: That matter has received some consideration and the suggestion has been made, that, in view of the fact that the credit union is a financial institution, some leeway should be allowed in the matter of investments, but if investment were beyond what was reasonable for ensuring permanency and for the use of the association, then over that margin that is allowed, any income or investment income or any additional income should be taxed. The institution is of such a nature that investment is incidental to its existence. I would not admit that all investment income of a credit union should be taxed, but I do think that the point may be reached where it would be unfair to allow the credit union to make a lot of profit and have it tax-free. If it gets beyond the stage where it is incidental to the main purpose then it becomes a different matter. It is something that requires careful consideration.

MR. NADEAU: As a matter of principle, is it not to a certain extent at any rate a departure from the original idea of the credit union?

MR. FRANCIS: I admit that it should not be one of the objectives of the credit union, but recently we have had a short supply of goods and it was not possible for the credit unions to carry out the objects for which they were formed. Instead of using these funds or leaving them in the bank -- I suppose that is an investment in a sense -- or leaving them in the till, the credit union officials thought it was only a matter of good sense to buy Victory bonds. That is an investment and a profit in the legal sense, but my submission is that it is only incidental to the main purpose, and a certain amount of leeway, a certain margin should be allowed, in any recommendation the Commission makes; and beyond what is reasonable it is probably fair that they should be taxed.

MR. VAUGHAN: Have you any idea what that margin should be?

MR. FRANCIS: I could not suggest any margin; it would require an expert to decide that question.

THE CHAIRMAN: It would involve a definition of the word "reasonable" or the word "necessary".

MR. FRANCIS: Perhaps "necessary" in this respect has a somewhat different meaning where we are dealing with a financial institution. There may be a distinction there.

THE CHAIRMAN: "Reasonable" is almost as bad.

MR. FRANCIS: Yes. I do not think I have used the word "reasonable"; I have tried to keep away from it. I hope I have made my point clear.

The Comparative Position of Credit Unions and Those in Competition.

In this regard it would appear that the only persons interested would be the following:

1. Financial institutions making small loans.
2. Companies selling goods on the instalment plan.

It is significant that no objection, as far as we are aware, has been made by either of these groups to the credit unions method of financing, or to the exemption which has been granted to the credit unions. The credit union fills a need which has not been met by any other type of organization, and the evidence is clear that credit unions have been formed and are operated to meet a need. Any objection taken to credit unions seems to be by those who have not a full understanding of how credit unions operate, and the benefits derived therefrom. An illustration is the brief presented by the Halifax Board of Trade. (XII - 4635).

I do not say this unkindly, but I believe that the reason for many of the submissions that have been made with regard to credit unions is that they are not fully understood. They are fairly new in this country and it is not strange that their nature should not be fully understood.

THE CHAIRMAN: You do not have to justify their existence.

MR. FRANCIS: I want to place them beyond the need of justification.

Public Interest

The Commission has been asked to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest. In making this submission therefore it is necessary to give special attention to the meaning of the words "in the public interest" and it is necessary to ask the question with regard to the recommendations "is it in the public interest?" It is submitted that this means "is there a need fulfilled which is of benefit to the community generally?" That we submit is a reasonable interpretation for present purposes of the public interest.

Therefore, with respect to this submission on behalf of the credit unions we ask three questions which we propose to answer from the evidence:

- (1) Has there been a need?
- (2) Has the need been fulfilled by the Credit Union?
- (3) Has there been a benefit to the community generally?

With regard to the first question -- has there been a need -- we refer to the report of the Banking and Commerce Committee of the House of Commons respecting Small Loan Companies.

I think this is very important and I commend to your attention the evidence and the report of this Parliamentary Committee. I have taken only three or four points from the report, but the report as a whole is worthy of your consideration. You will recall that this was in 1938.

The following are brief excerpts from the report of the Committee dated June 1st, 1938, indicating that at that date the problem of people in necessitous circumstances obtaining small loans had not been solved and the hopeful features of the credit union:

"Times again your Committee had been reminded that usury is an ancient evil; and as often reminded, that despite the innumerable acts of Church and State the problem of usury is, in 1938, still unsolved." (p. 417)

"Following American practice, inaugurated some few years ago, the Canadian Bank of Commerce established in June, 1936, a personal loan department, and up to date has made 60,423 loans for a total amount of \$8,800,000. The cost to the borrower is made up of a discount of 6 per cent per annum and a service charge varying from 50 cents to \$3 depending on the amount of the loan. The result is a total charge of about 1 per cent a month on a loan for 12 months (excluding provision for penalties). The Small Loan Department of the Bank has so far been unprofitable even without making any interest charge for the loaning funds supplied by the Bank." (p. 419)

As you know, arising out of this Committee's work, the Small Loans Act was passed which permitted interest up to 2 per cent per month. It will be found in practice that loans that are being made under that legislation are made at 18 per cent per year. This matter of interest is a little misleading. If you take 8 per cent discount on a loan that is

repayable in instalments, the interest rate will work out at between 12 and 13 per cent. The point is that when credit unions are criticised for charging an enormous rate of interest of one per cent, in the light of the findings of this Committee, and in view of the practice, it is actually a modest rate for this type of loan.

MR. VAUGHAN: I suppose you will agree that there is quite an expense involved in looking after small loans, making collections and all that sort of thing. It is not a straight interest charge as in the case of a bank loan of a million dollars.

MR. FRANCIS: I am not criticising the charges that are made by the banks, nor am I suggesting that they are too high. What I am suggesting is that, because of the rate which they had to charge in order to make it profitable, it was impossible for the people who needed credit to get it and therefore they devised another scheme whereby they could do part of the work themselves. Some of the things you have in mind, keeping accounts and so on, is done by themselves by voluntary labour. It was not intended at this point to criticise in any way the rates charged.

"As custodians of the people's savings, it may well be that the chartered banks should not be called upon to arrange their investments so that, in the unfortunate event of crisis, we should find public savings converted into small loans on personal security which under normal conditions are regarded as tolerably safe only when administered by highly specialized organization." (p.419)

"Nor was it established to our satisfaction that borrowers would gain (and, in fact, may lose) by the substitution of an interest rate of 1 per cent a month

substitution of an interest rate of 1 per cent a month for the banks' usual rate of 6 to 7 per cent per annum. True, the rate of 1 per cent a month is low as compared with the rates usually charged by companies engaged exclusively in loaning small amounts on personal security; but the bank requires an endorsation that many borrowers cannot provide, and it is assumed the bank rejects applications that contain a substantial element of risk, or present the prospect of undue cost in supervising collection." (p. 419)

The banker is a business man, he has to make loans on a sound basis, and I am not criticising him at all. He requires security of a certain nature which is known to lawyers and business men. But for some reason the credit union is able to take security of another nature. The security is different; that is all. It is a personal responsibility which is not gauged by bonds or anything of that kind. It is a unique type of security. The credit union can accept it but the bank cannot and I am not criticising the bank for not accepting it. I am saying that the credit union is different and supplements the service given by the bank. Administration is also carried out by members and that cuts down costs. They cannot afford to pay someone else to keep their books. They do these things for themselves. That is the matter in a nutshell.

"Obviously the State can intervene advantageously over rates only within a limited field; for naturally a legislative rate at which money is not obtainable is of doubtful benefit to necessitous people. In the debates over the subject it would almost seem to have been at times forgotten that to legislate a maximum rate is an injunction that, if people cannot borrow at the prescribed rate, they cannot borrow at all." (p. 424)

"By comparison with the rate charged by personal loan department of the Bank of Commerce the rate of 2 p.c. a month set out in the draft bill is 'high', but it is to be recalled that, so far, only one bank has entered the field and then with a definite statement to the Committee that it is not talking about going into this small loan business on a large scale'; while the other banks have indicated their unwillingness to enter the field." (p. 424)

That was at a time, in 1938, when across Canada there was a real need for credit which was not available at rates that could be paid and with the security offering. It is interesting to check that date against the rise of credit unions throughout Canada and I refer you to a reprint from the Economic Annalist for February 1941, Marketing Service, prepared by Mr. A. H. Turner. Here in review we have this interesting information. The Credit Unions Act was first passed in Prince Edward Island in 1936, in New Brunswick in 1936, in Manitoba in 1937, in Saskatchewan in 1937 and in Alberta and British Columbia in 1938. That legislation was passed of course in response to public demand. In other words, the existing institutions were not giving the service that was required and needed and therefore a genuine demand arose on the part of people who needed these loans and could not get them. That demand was made first of all for legislation under which they could act and the lead came originally from Quebec. Briefly, the history of the movement shows Quebec to have been the father or the mother of the movement, then it went to the United States and extended to St. Francis Xavier University, and it was through the influence of St. Francis that many of the acts were obtained. At this time; when the Parliamentary Committee declared that they could not find a solution, the people themselves said that they would try to

to find one. They said, "It has worked in Quebec, in Germany, and in other places, and we will try it too."

"By comparison with the rates charged over a widespread operation of unlicensed lenders in Canada the rate is decidedly low. Evidence was presented to the Committee that unregulated lenders have been currently charging rates running into several hundred per cent per annum. Evidence from the United States indicated that 20 per cent a month is not an unusual rate in the unregulated field. In Great Britain, where regulation is undeveloped, the law provides that the fairness or unfairness of the rate must be determined by the Court before which a transaction comes for review. If the rate exceeds 4 per cent a month the lender must prove that it is not unfair; if the rate is less than 4 per cent the borrower must prove that it is unfair." (p. 424-425)

"Your Committee expresses gratification with the progress made by co-operative credit institutions but observes that co-operative credit has been successful, in Canada, as elsewhere, only in proportion to the existence of a measure of homogeneity in social, religious and economic relations. There were members of the Committee who expressed the opinion that Parliament should subsidize educational work for the spread of co-operative credit; but the majority of the Committee held that this admirable objective -- essentially local -- is better left with the provinces." (p. 420)

The record of credit union development since that report was tabled is before the Commission. The people themselves through their credit unions have done much to solve the problem of credit. All provincial legislatures have now

provided legislation which is fairly uniform and reasonably adequate. All provinces have provided directly or indirectly for inspection services. All governments have given encouragement to this development. A minority of the Parliamentary Committee was in favour of subsidizing educational work for the spread of co-operative credit. It is submitted that no obstacle should be placed in the way of the further development of credit unions.

My point about taxation is this. Here at this time a minority of this committee, representatives of the people, were willing to go so far as to subsidize from the Dominion treasury educational work to bring about this result. This was not done and possibly it was a wise thing. However, I am not discussing that. At any rate they regarded it as of so much importance as to justify them in going that length. Well, the people themselves did it. True, they had a good deal of assistance from the provincial legislatures and much money has been spent in this direction in the public interest. It would seem therefore inconsistent now to suggest that these institutions which are just getting under way should be taxed and this movement, which is filling a need that no one else would fill, should thus be discouraged.

According to the evidence historically the People's Banks were formed because of the economic distress of rural people. Raiffisen was able to convince these people that jointly or co-operatively they could through systematic savings pool their small resources and thus create a fund from which the individual could borrow in time of need and distress. In British Columbia the credit union development took place because of the need which existed among certain groups of people and was assisted by the example set by St. Francis Xavier University

(Burns I - 344). The first credit union was established in British Columbia by a group of unemployed workers in a community adjacent to Vancouver, as the evidence shows, "in a groping attempt to better their conditions." (Burns - 1-344).

The Government of British Columbia realizing the need and what attempts were being made to meet the need provided the necessary legislation. In La Fleche, Saskatchewan, the need for credit was so imperative that action was taken by the Board of Trade (Bilodeau - V - 1523). Before the credit union was formed the average citizen within a radius of 30 miles could not get credit. (Bilodeau - V - 1537).

It will be recalled that the Halifax Board of Trade, representing a responsible body of citizens, recommended that credit unions be taxed. The question was asked of counsel whether he knew of any members of his organization who were in direct competition with credit unions and the answer was, "No, I do not think there are any." Here on the other hand is a board of trade working in the interests of the people of that community to get the thing going.

At Antelope at the time the credit union was formed, money could not be borrowed from the bank (Lloyd - V - 1543). Credit facilities throughout the province were wholly inadequate. According to the evidence, in 70 rural communities where there were no other banking facilities credit unions were formed (Turner - IV - 1114). It is common knowledge that many rural bank branches were closed during the depression.

Evidence was given that long overdue medical care was given only after the credit union had operated and that many needs of the home were fulfilled (Lloyd - V - 1543).

This need for filling the credit gap left open by

existing private organizations has been recognized by governments which passed various acts all prompted to a great degree by the motive of public welfare. Governments have attempted to create agencies that would provide credit to those people who are on the level of small wage and salary incomes, to small artisans and to farmers, all of whom at some time or other do not possess the necessary security for credit at the regular credit sources.

With regard to the closing of branches, the figures can be easily obtained, and they show that point after point was left without any type of banking service at all. I am not criticising anyone.

MR. VAUGHAN: Is it not a fact that many branches were closed in order to avoid duplication?

MR. FRANCIS: Yes, but I have personal knowledge that in a great many districts the only existing bank was discontinued.

MR. VAUGHAN: I thought there were certain arrangements whereby one bank would continue in one place and another somewhere else.

MR. FRANCIS: I do not think there is a bank now between Hanley and Davidson, for instance. What distinguishes this great section of Canadian citizens who are found in the credit union group is, not that they want privileges, but that there is a need that is driving them into that category.

Examples of such legislation are the Industrial Development Act, the Farm Improvement Loans Act, amendments to the Bank Act and various clauses of the National Housing Act. All these credit agencies were created to fill this need. But in spite of legislation there remained a gap which the people were required to fill themselves. (Sinclair -V-1540)

In some of that legislation, if you refer to the statutes, you will find that there is a government guarantee. In other words, there is the guarantee of the government behind measures that attempt to do somewhat the same thing as the credit unions are doing on a limited scale, only in that case they pledge the security of the government and are willing to risk the people's money. Surely it would not be proper now to turn around and tax institutions that are doing that very thing without any government guarantee. That would not be sound and I cannot conceive of anything more inconsistent than to turn around and discourage a movement that is filling a need which no one else has met. The people themselves are satisfying this need.

MR. VAUGHAN: When you are speaking of **taxation**, you will agree I suppose that there might be some profit from investment.

MR. FRANCIS: My point is that a number of requests have been made to the Commission by responsible bodies asking that the total income of credit unions be taxed. In Halifax I asked a question of Mr. McInnes whether he meant by **taxation** the taxation of patronage dividends.

MR. VAUGHAN: I understood you to say that it would not be right to tax credit unions -- presumably not at all; yet earlier in your argument I believe you agreed that there might be a tax on profits arising from business.

MR. FRANCIS: Yes, over a certain margin.

MR. VAUGHAN: Do I understand you to say now that it should not be taxed at all?

MR. FRANCIS: I am trying to meet the claim made before this Commission that the credit unions should be taxed the same as any other organization and that, because a credit union

is a separate legal entity, everything that comes into its hands should be treated as income and be taxed the same as any other organization.

THE CHAIRMAN: You say they should not be taxed at all, but if they must be, then you offer this as a possible solution?

MR. FRANCIS: Yes. We are trying to arrive at something that is fair.

MR. ELLIOTT: Is it your contention that to tax them on their whole income would destroy the movement or have an effect in that direction? What I mean is this. You have argued that they fill a need and I do not think there was any evidence to suggest that that was not true. You have admitted that the banks and other institutions fill a need which probably the credit unions could not fill. You are suggesting however that the credit unions should not be taxed because they fill a need. Is it your position that these other institutions can bear taxation while the credit unions cannot?

MR. FRANCIS: I am suggesting that the people who find it necessary to use the credit unions are not as able to pay as perhaps other groups are. May I use an illustration in an endeavour to answer the question? I regard the question as fundamental. What you are saying, Mr. Elliott, is this in effect: "What you say may be true, but can they not be taxed and still survive?"

MR. ELLIOTT: Does that enter into your argument?

MR. FRANCIS: I am coming to that. Let me put it in this way. Let us for the moment treat the credit union as a social and economic organization, or at any rate a device operating in a certain way. Now I think the evidence shows

that it operates in such a way that it tends to improve the condition of people who are in necessitous circumstances, Very well. The more latitude you give them the more it will improve the position of these people, thus enabling them to re-establish themselves and so become tax-payers who can contribute their fair share to the exchequer of the nation. The evidence in the maritimes was that the first step in the movement was the study group and then the people got together some savings and helped themselves in this way, and after they had taken four or five steps, the first thing they knew they were liable to income tax. My point is that it is a mechanism generating, so to speak, a certain amount of economic and social power in the community. You can give that power full play as in the generation of electricity and use the electricity, getting the advantage of it, or you can tap the generator if you like. I say it is unwise in the public interest to go back and put the brakes on this social and economic machine in the community because you will be better off if you take the long-range view and wait until the power is generated and then tap it. I do not know whether I make myself clear.

MR. ELLIOTT: It is a good simile.

MR. FRANCIS: That is the point I am trying to make. Contrasted with the needs of a rural community, the evidence presented in Toronto showed the urban needs for credit. There the disadvantages and inadequacies of small loan institutions were apparent and again prompted and guided by the leaders of St. Francis Xavier those who had the welfare of their fellow workers at heart set about meeting the need which existed. (MacDonald VII - 2610.)

The Committee to which I have referred could find no solution. The need was desperate and the people themselves found the solution.

As to the need perhaps it was greatest in the Maritime provinces. In Morell in the Province of Prince Edward Island conditions were deplorable. The need for credit was urgent, but the need for establishing confidence of the people in each other was perhaps even more important. Again steps were taken to meet the need by establishing a credit union after very careful study. (O'Brien - XI - 4066). Other examples - At Baddeck, in Cape Breton, the story was much the same. Without financial means the people could do nothing and therefore the immediate need was to secure finances and to meet that need, the credit union was formed. (MacDonald XII -4464).

At Larry's River and other points the story was the same. It is perfectly clear therefore that there was a very definite and urgent need to be fulfilled.

The second question is - was that need fulfilled?

Here again the evidence is conclusive. The evidence from British Columbia is that during the entire credit union development the present need has been met and not one defalcation has occurred. (Burns - I - 347). Total loans amounted to \$2,000,000.

Among other benefits members were enabled to take steps towards the construction of purchasing their own homes. (Burns - I - 349).

Apart from other benefits the loans have been insured. This scheme has been adopted as a social device for the benefit of the members.

It is noteworthy that in the British Columbia scheme the war clauses were of a generous nature and when a credit

union member was killed in action the effect of his life savings insurance was to give his beneficiary additional benefits to the extent of \$1,000. (Burns - I - 350).

In the opinion of the witnesses the credit union demonstrates that the average man is honest if given a chance. (Burns - I - 353).

It is contended that in addition to meeting the needs of the members the credit union together with co-operatives exercises a stabilizing influence upon the economy of the country. (Burns - I - 354).

In Saskatchewan the evidence was clear that the credit union had done much to meet the credit needs of various communities. As an example in the LaFleche district, 2,363 loans have been made to 781 members without loss. (Bilodeau - V - 1524). The opinion of the sheriff of the Judicial District of Gravelbourg is not without significance. He stated as follows: "I have been acquainted with the Lafleche district for many years and I am also acquainted with the financial condition which has improved immensely during the last 6 or 7 years. Better prices for farm products and better conditions generally have no doubt helped to the betterment of the population. But a large part of the credit for this renovation we must admit is coming to the LaFleche Credit and Savings Union for restoring confidence in the people by teaching them how to take care of their own affairs; by impressing on the members of the Union the necessity of systematic savings and by advancing judicious loans when needed." (Bilodeau - V - 1529).

The Ontario evidence is clear on the way in which the credit union has helped to solve the problem. After referring to the Ontario Money Lenders' Act and the Dominion Money Lenders' Act, Mr. MacDonald, President of the Ontario

Credit Union League stated - "These Acts and many others have attempted to control interest rates on small loans, but generally speaking, they have been ineffective because unless a source of credit had reasonable rates provided, the borrower if he needs the money badly enough will pay the rate demanded of him. Credit unions by supplying credit at reasonable rates where other institutions have failed to do so, have for the first time provided an effective check on usurious money lending. (MacDonald - VII - 2610.)

That is only his opinion and I offer it for what it is worth, but the Parliamentary Committee said that no solution had been found to curb usurious lending. Here is something worth trying and I submit it should be given a chance.

The Ontario evidence also was to the effect that the credit union has helped meet domestic financial needs and has contributed to domestic harmony and encouraged thrift. (MacDonald - VII - 2614, 5.)

It was made possible for members to redeem old loans at high rates of interest by borrowing from the credit union. The evidence of Mr. O'Brien of Morell was that credit unions have solved to a great extent the credit needs of the members through personal loans, seasonal loans and even mortgages. Not only did the credit union meet an immediate need but it made it possible for the people of the community having gathered funds and established confidence in each other to go on and meet other pressing needs. The same result was achieved in scores of other communities in the Maritime Provinces.

Looking at the Canadian picture for a moment we find that in 1943 almost 375,000 Canadians loaned to themselves through the credit unions approximately \$17,000,000, and that at the end of 1943 they had by means of thrift put aside

for provident and productive purposes approximately \$70,000,00. Furthermore, by the end of 1943, members of credit unions had from the inception of the credit union movement loaned to themselves approximately \$155,000,000. (Marketing Service, Economics Division, Department of Agriculture, Ottawa, Canada, Official Statistics.)

Under the rules of credit unions every loan would be a necessary one.

That is one point I stress. They were necessary loans which would not have been given unless they were needed, and that volume of loans to these people is a matter of importance. Therefore it is perfectly clear that a genuine need existed and that the establishment of credit unions has been the means of filling that need in a great measure.

This brings us to the third question - has there been a benefit to the community generally? This is a question that must receive careful consideration from the point of view of the public interest. Again we look at the evidence. We submit that there has been a benefit to the community generally for the following reasons. In the opinion of witnesses one of the great benefits lies in the fact that the people do it for themselves. (Burns - I - 346).

There is a great satisfaction in the members owning and controlling their own credit union. (Burns - I - 351). The benefit to the community generally must be recognized because credit unions are encouraged among employees of private profit-making establishments. The evidence is that in the company owned by Mr. Buckerfield, who could scarcely be said to favour co-operatives, a credit union exists. (Burns - I - 374). The evidence also is that credit unions help the people to save and encourage thrift, and surely encouragement of thrift is of benefit to the community

generally (Burns - I - 374).

In Saskatchewan, Mr. Molloy, the President of the Credit Union Federation, and the Credit Society, former Deputy Minister of Labour, stressed the fact that there were credit unions in many commercial establishments. (Molloy - V - 1522). Perhaps the most convincing evidence as to the benefit derived by the community generally (outside of Quebec) was given by Mr. Bilodeau. He was emphatic in stating that the credit union had a harmonizing influence on the people of the community. He stated, "Our 781 members include both farmers and townspeople of LaFleche. We have clerks, lawyers, stenographers, storekeepers and other business men among our members as well as a majority of the farmers in the vicinity of LaFleche. Every nationality found in the district is represented in our membership, Loans have been extended to all classes of members. (Bilodeau - V - 1524).

Again, referring to the benefit of the credit union, speaking as postmaster, I can say it helps. It is a great thing for the community where we are all divided in race and religion. It certainly builds up a better community. That is one big factor in the credit union. There is no doubt about that. (Bilodeau - V - 1536).

He also gave it as his opinion that the development of the credit union movement would tend to be a unifying force. (Bilodeau - V - 1537.)

It is common knowledge that in Western Canada the problem of bringing together the urban and rural people and those of different races, religions and occupations is one of prime importance, and it is most encouraging to those who have pioneered the credit union movement in the provinces to find that credit unions are making a contribution to the solution of that problem.

It is hard to say exactly what constitutes the public interest. It is really a lot of little things put together, and all we can do is to look at the evidence and see what we find. But these people are representative Canadians, they are truthful people, this is their opinion from their observations in their communities, and I suggest that you should give some weight to their representations.

One of the most significant features in the LaFleche district is the bringing together of farmers and businessmen in solving their common credit problems. Mr. Bilodeau agreed to furnish to the Commission a statement of the loans made in the community during 1943 and this no doubt has been supplied. It is significant that the loans to farmers numbered 452 and the loans to other citizens and merchants numbered 94 including 16 to merchants. Total loans were 546 for the year involving \$122,028.

Again we recall the evidence to the effect that different races and religions were represented on the board of directors, the credit committee and the supervisory committee, and it is understandable why the operation of the credit union has had a unifying influence on the community. In the opinion of Mr. Bilodeau the credit union not only afforded credit to the people in need of it but gave them more confidence and helped to re-establish them. It was the opinion of some witnesses that the people have helped themselves through credit unions and thereby put themselves in the position where they would require less help from governments, and therefore the governments would require less revenue.

That is something that is surely relevant to the taxation question. If by helping themselves people can put

themselves in a position where they require less help from the government in times of stress that is certainly something that has a bearing on taxation.

It was clear from all the evidence that the credit unions for the most part were used by those who had a real need for credit and were in the low or moderate income groups. There may have been some exceptions where leadership came from those who had a genuine interest in the public welfare. It seemed quite clear from the evidence that this was one method by which the people could put themselves in a position to pay more revenue to the government if the government needed it.

As to the widespread use of credit unions it is interesting to note that the unions are favoured by a number of private profit businesses because these businesses can see from their observations the benefits that accrue from the credit unions.

(Note the following from Bulletin No. 95-E of the Department of Agriculture, Co-operation and Markets Branch, "The Control and the Cost of Customer Credit", by A. H. Turner).

"All types of specialized community service such as other private businesses, doctors, hospitals and the like have to a greater or lesser degree shown an interest in this credit union type of financial institution, because they hope to be able to get relief from the necessity of giving a credit service along with their own specialized service. It is too early to estimate the success of these co-operative agencies in carrying out this objective as far as Saskatchewan is concerned, but their leaders are now hopeful of satisfactory results. The credit union rate in Saskatchewan is set by statute at a maximum of 12 per cent per annum on unpaid monthly balances, but the credit union members may receive dividends on shares, dividends on deposits and patronage

dividends on the amount of loan interest paid, all of which are based on earnings and such amounts received by members have the effect of reducing the annual interest rate on loans to borrowers since loans are made to members only."

In the 1944 report you will find there are loans for medical services and the like.

MR. PARKER: Is that a provincial report?

MR. FRANCIS: Yes. It is the only one available. Let me give one or two figures to show what is happening so as to bring it up to date. These are the 1944 loans. You will see on page 7 of the report that the loans for land payments including mortgages, amount to 526, about a third of a million dollars; farm machinery and repairs, 961, or over a quarter of a million dollars. For home improvement and buildings generally, farm expenses, medical, dental and hospital, 492 loans, and for general household expenses, 414 loans, while for furniture and clothing there are 206 loans. I am simply trying to show the adaptability of the credit union technique.

They provide a common meeting place for labour, capital and others; all those who believe in the non-profit system. In credit unions all of these are seeking to solve a common problem, and in solving it come to understand the other's point of view. This surely is in the public interest and should be encouraged.

It is significant that according to the Ontario evidence private profit-business frequently placed facilities at the disposal of their employees in order that they might operate a credit union.

MR. NADEAU: At the bottom of page 15 you speak of "all those who believe in the non-profit system". Is that supported by much evidence before this Commission? Are we to understand that members of credit unions generally do not

believe in the profit system?

MR. FRANCIS: Perhaps I have not made it clear! They do provide a meeting place for those who wish to help themselves without paying profit. A may be in good circumstances and may be able to go to the bank and offer adequate security and get a loan, and he would quite properly pay a profit. But B may not be able to get credit and therefore he cannot take advantage of that profit way of getting assistance. He does it himself. All I say is that this is a common meeting place for those who are not in a position to do it the profit way. They do it in the non-profit way.

MR. VAUGHAN: You speak of the profit way. If the banks did not have to pay taxes could they not loan money at much lower rates?

MR. FRANCIS: They would not have to pay any tax if they did not make a profit.

MR. VAUGHAN: If they were exempt from taxation and did not pay taxes could they not lend to their clients at much lower rates than they do now and could they not also pay a higher rate of interest?

MR. FRANCIS: I will put it this way.

THE CHAIRMAN: I think you will satisfy Mr. Nadeau if between the "non" and "profit", where you have the hyphen, you add the word "big".

MR. NADEAU: Or small.

MR. FRANCIS: I am always desirous of meeting the wishes of the Commission.

MR. VAUGHAN: I see you did not answer my question. I suppose it is difficult.

MR. FRANCIS: I hope to answer it in the next two days. If I may do so I should like to lay the foundation for the

answer. Will that be satisfactory, or do you wish me to take time now to answer the question?

MR. VAUGHAN: No, go ahead.

MR. FRANCIS: Don't let me forget it. I do not think you will.

The testimony of the Maritime witnesses was very significant on one point. It was established that through credit unions primary producers, such as fishermen, were able to obtain access to credit to acquire the means of greater production in the matter of equipment and supplies. This in turn enabled them to increase production thereby contributing to an increase in national revenue. Furthermore, the evidence showed that the credit union very often made it possible to establish co-operatives with all of the benefits resulting therefrom. (Considerable evidence was adduced in Quebec and the Maritime Provinces on this point.)

One further advantage was noted in connection with the Nova Scotia development. It was shown that the credit union league is giving service by way of first mortgages, and that already 71 loans have been made and there has been no default on any instalment. These loans are also protected by life insurance.

Considerable evidence was heard regarding federations of credit unions. These may be classified under three main types:-

- (1) Federations of an educational nature.
- (2) Federations for business purposes
- (3) Federations in the nature of a central bank for credit unions and co-operatives.

We had examples of No. 3 in British Columbia and Saskatchewan, and I believe others are contemplated.

(1) Educational Federations:

One of these has been described as "a legislative, educational, guidance and policy suggesting institution." (Molloy - V - 1520). These are usually established on a membership basis and do not as a rule conduct any business. They of course do not make any profit and there is no question of taxation as far as they are concerned. Occasionally, incidental services are rendered by such an organization and as an example reference is made to the British Columbia Credit Union League. It is described as a service organization whose purpose is "the general fostering and furthering of the credit union movement." (Burns - I - 355). This league, however, does have a publication and supply department which operates as a co-operative, the surplus being returned to the members as patronage dividends. It publishes the British Columbia Credit Unionist and its general operation is financed by dues paid by the members. The surplus accrues from the service operations and the more dues the more service rendered. (Burns - I - 357).

(2) Federation for Business Purposes:

The whole purpose of these federations is to extend the facilities of the credit unions and enable them to operate more efficiently. They serve as a clearing house for credit unions in various parts of the region. The principle of making an overcharge of the interest, followed in the credit union (Burns - I - 352) is followed in the federation. Technically these federations have by usage and probably by law been deemed to come within the provisions of 4(q) of the Income War Tax Act. If there is any doubt about this it is submitted that Parliament should clarify section 4(q) in order to include any extension of

the credit union development in either the provincial or the dominion field as long as credit unions carry on their functions according to recognized credit union principles on a mutual basis. The same exemption should extend to federations of credit unions as extend to credit unions themselves.

I come now to federations of credit unions and co-operatives. The federation is simply another instrument for performing a part of the function which the members set out to perform, and under 4(q) at the present time they should be included. I suggest that it should be made perfectly clear in any legislation bringing about changes that federations are covered. I mention dominion as well as provincial because there is some doubt, I suggest, as to the constitutional status of some of the credit unions. As you recall, under section 91, banking is restricted to the dominion. I had occasion to look into that point at one time when we were applying to the provincial legislature for the Credit Society Bill, and I believe I found only one authority, a district court judge who had ruled that a Credit Union Act was within the competence of the provincial legislature. So that constitutional difficulties may arise and I submit with respect that in the report that possibility be dealt with and that it be made abundantly clear that legislation enabling the incorporation of credit unions is constitutionally sound. Furthermore, it may be that in an area like western Canada, or Eastern Canada, the territory is not sufficiently large to include the entire area in which the federation should operate, so that it might be necessary in the interests of credit unions to have a federation serve more than two provinces. It is clear in that case that the provincial

legislation may not be adequate. I remember that at the time this legislation was passed in Saskatchewan the Deputy Attorney-General argued that even at the present time the legislature did not have the power to set up the type of organization contemplated by 4(q). So that there is that constitutional point that should be considered if there is to be a revision of 4(q).

MR. VAUGHAN: There would be no constitutional difficulty of that kind if they were incorporated under dominion legislation.

MR. FRANCIS: There is a lot to be said for having provincial statutes such as we have at the present time. As a matter of fact they are pretty uniform. We find far more uniformity in credit union legislation than in co-operative legislation. But I am not recommending that. I am recommending that in addition to what we have now there should be supervision should the need arise so as to strengthen the constitutional position of the present credit unions or to make it possible to organize a credit union federation involving more than one province.

MR. VAUGHAN: They would be entirely uniform under dominion legislation. You say they are fairly uniform now, but they would be entirely uniform under such legislation. However, I am merely asking for your opinion.

MR. FRANCIS: There are variations to be considered. For instance, you have a different position in Quebec, a different history, a different background, and generally that observation applies to provincial laws relating to property and civil rights.

(3) Federations of Credit Unions and Co-Operatives.

Illustrations are found in British Columbia and Saskatchewan. In British Columbia the organization is known

as the British Columbia Central Credit Union. The membership is open to credit unions and co-operative associations. (See bylaws and Burns - I - 358).

Its object is to provide "a repository for the surplus and reserve funds of its members and to make loans to the members from the funds thus created." (Burns - I - 358).

In Saskatchewan the organization of this type is known as the Saskatchewan Co-Operative Credit Society of which the witness, Mr. Molloy, is the President. It is submitted that the types of organizations (2) and (3) operate on a mutual basis and deal only with members, do not make a profit, and therefore are not subject to income tax. Furthermore, that since they merely serve to extend the services of credit unions and occasionally of co-operatives they are entitled to the same treatment as credit unions for the same reasons. They come within section 4(q).

It will be observed that in most credit unions and in federations referred to under the third heading, borrowers' dividends are usually allowed either by law or practice, this being done to achieve equity for all who use the credit union. It is significant that in every province in Canada the government has seen fit to pass legislation designed to enable credit unions to be formed and to operate efficiently and safely.

The operation of a credit union although under democratic control is such that it insures reasonable safety. The loss ratio among credit unions is very striking. In British Columbia no losses have occurred. In other provinces the losses have been insignificant. The government has also given assistance by way of guidance, advice and inspection, and doubtless the inspection service, together with the unique

type of interior control, explains to a large extent the low loss ratio. The evidence shows that the members take a great interest in the credit unions. This also helps to ensure sound operation, and at the same time it gives the members intimate knowledge of financial matters. The very fact that the Government has given the support and assistance indicates that they must have considered their development and encouragement of credit unions in the public interest.

In normal times, according to the evidence from the provinces mentioned, the deposits and share capital would be required by the members to a great extent for provident and productive purposes. In time of war, due to the short supply of consumer goods and the war priorities and restrictions, it has not been possible for members to fully utilize the funds of the credit unions for normal purposes. For example, one credit union has invested in Victory bonds \$250,000 which in normal times would have been loaned to members. In that credit union there are loans of \$30,000 pending the time that tractors will be available. (Bilodeau - V - 1535).

Other evidence stresses the fact that on account of the orders of the Wartime Prices and Trade Board, and the shortage of consumer goods, avenues through which loans are usually made may have been curtailed. (Burns - I - 349). It is the opinion of witnesses that when normal conditions return the credit union moneys will be required for ordinary purposes and investment loans will no longer be necessary. It is submitted that because this is a temporary condition and in view of the authority referred to above that in so far as the past is concerned the Commission should recognize that the income derived from investments by credit unions should not be taxed, and that as to the future since this condition is very likely to alter very quickly income from

investment loans should not be taxed. At any rate, unless the investments should exceed an amount deemed to be necessary by the Minister of National Revenue as a "safety margin".

There has been a period of fair prosperity and it seems to me that some of these investments are fairly high, but that is all to the good, as a safeguard perhaps against the days that will not be so prosperous. I suggest therefore, that if any limit is placed on investments it should be made ample so as to ensure the continuity of the credit union.

It is submitted that credit unions and federations of credit unions which are merely extensions should not be taxed because it is not in the public interest: as previously outlined, that persons of low income and tax groups who are desirous of helping themselves and who are willing to go to a great deal of trouble to help themselves should be discouraged by taxation. In a sense they are performing the functions which would otherwise have to be performed by governments through institutions that would not pay income tax. Furthermore, they would be retarded in their efforts to put themselves in a position where having assembled and made effective their collective financial strength, they are in a position to further improve their financial position and become not only liable but able to contribute more substantially to the revenue of the nation.

Credit Unions should not be required to make deductions under Section 92 of the Income War Tax Act.

Section 92 provides for the deduction of an amount equal to 7% or any amount which becomes payable by way of a dividend in respect to any bond or stock. The evidence is that in the Province of Saskatchewan the credit unions have been required to make this deduction. (Bilodeau - V-1526).

I happen to know that not many weeks ago an official of a credit union spent several evenings of his time making out these returns, making deductions and so on, while the total amount involved was possibly \$3.50.

The evidence is uniform that the so-called shares in a credit union are not shares in the ordinary sense as the term is used in the joint stock company law. In fairness, however, it should be admitted that in so far as one share is concerned the arguments advanced by credit union witnesses is open to question. With respect to the share held for the purposes of control there is a technical argument, in favour of Section 92. As to one share it cannot be withdrawn and any interest paid on it is a dividend. In the same sense it is technically a dividend. The evidence shows that either by law or practice the share of a credit union is usually \$5.00. The one share which is held permanently by the member and which does yield a dividend in the technical joint stock company sense would only yield in practice an interest rate of 3% or 4%. By law it could not exceed 5% or at most 6%. At the rate of 4% which on the evidence is the usual rate the income per year on a \$5.00 share is only 20 cents, and 7% of that amount is 1.4 cents. The sum is so insignificant and the amount of work involved by labour, usually voluntary, is such that it is only common sense to relieve credit unions from the obligation of making the deductions.

With respect to the so-called shares, apart from the share which must be retained by the member for purposes of control, we must refer to the evidence.

MR. ARNASON: One point at issue is that the law with respect to the deduction at the source has apparently not been enforced uniformly in all the provinces. Is that your point?

MR. FRANCIS: Yes. I intended to refer to that. I believe the evidence shows that Saskatchewan is the only province in which it has been enforced, although in New Brunswick an attempt has been made to enforce it; but the decision was reached to let the matter stand. I cannot recall evidence from any other province where compliance was required. That is a point I wished to mention.

MR. ARNASON: Under most credit union legislation the directors are given authority to limit the number of shares which may be held by each member, or it may be set forth in the by-laws.

MR. FRANCIS: I do not recall from the evidence whether there is a strict limit. There may be but I do not remember. I am familiar with the ability to limit but I do not think that the directors have placed a limit on the number of shares which may be held. The point I am trying to make is that shares and deposits are so much alike that if a limit were placed on the number of shares that could be held a member would have more deposits.

MR. VAUGHAN: Are the rates the same on deposits and shares?

MR. FRANCIS: Not necessarily.

MR. VAUGHAN: They would be higher on shares?

MR. FRANCIS: Usually. The whole thing is in the hands of the members. The evidence is uniform that these so-called shares are actually in the nature of deposits and a term which is used to describe them accurately is "loan unit". This term has been used by a number of witnesses.

By-laws usually provide that the so-called share capital is withdrawable on 90 days' notice but the practice has been to permit members to withdraw the so-called share capital

almost on demand.

The share certificate is not issued to the member. The share is not treated as a part ownership, It is clear from the evidence that the term has been carried over into credit union law and practice from joint stock company law and does not accurately describe the nature of the deposits. Therefore, in giving a reasonable interpretation to Section 92 it is quite clear that apart from the members controlling share any others held by him are deposits and should be treated in exactly the same manner as deposits in a chartered bank. The law does not require a chartered bank to make deductions from the interest paid on deposits and the officers of credit unions who are voluntary workers in any case, and are dealing with much smaller sums than chartered banks, should not be required to undertake the extensive labour of completing T.5 forms. The chartered banks are required to make returns only when interest of \$100 or more is paid or credited to a depositor in a calendar year (Cap. 43. S.C. 1944, amending Section 10 2(b) Income War Tax Act.)

Note the following evidence: "Starting in 1943 we have been required to deduct 7% at the source for income tax on the dividends we pay out. As the average dividend per member is about \$6.00 the majority of these deductions are less than 50 cents each. As a large proportion of our members have incomes that are too low to be taxed they are entitled to apply for a refund of this tax. If they do so, we have little doubt that the cost to the Income Tax Department in making these refunds would exceed the total amount that we have deducted at the source. Deduction at the source is a costly method of deducting income tax." (Bilodeau - V-1526).

It appears from subsection 12 of Section 92 enacted by Chapter 28 of the Statutes of 1942-43, that Parliament intended to deal with this matter but apparently the taxing authorities did not consider the amendment went far enough to exempt dividends payable by a credit union.

Subsection 12. Interest or dividends payable to the following persons shall not be liable to the deduction at the source provided in subsection 1 of this section,

"(a) persons and institutions mentioned in

paragraph p and q of Section 4 of this Act. "

It should be borne in mind that the greater part of the work done for credit unions is of a voluntary nature and it is submitted that from an administrative point of view as well as on the grounds of convenience it is not desirable to require these deductions. The evidence is that in Ontario some Income Tax inspectors have considered it a hardship to require credit union officials to complete the T.5 forms, and they have not all insisted on a strict compliance with the Act. (MacDonald - VII - 2608). It appears from the evidence that it is in Saskatchewan only that strict compliance with the letter of the law is required.

Attention is called to the following evidence on this point. (Sinclair - V - 1553). Appearing on behalf of the credit union league, Mr. Sinclair supported the request for a change in Section 92 on the following grounds. He urged (1) that the funds of the credit unions were deposits and not investment funds; (2) that the shares were used purely for the purposes of formalizing the organization and had no significance otherwise attached to them; (3) that the return on share capital in the credit union was usually set at a low rate and thus is comparable to savings deposited in a chartered bank.

It is worthy of note that the Inspector of Credit Unions for Alberta considers that the amount of work involved would be too great. (Fitzpatrick - II - 242').

Credit unions number among their members women, children and many others not in receipt of taxable income and to require deductions of interest would only require a great deal of labour for tax officials in dealing with applications for refunds.

Under the legislation the age limit is much lower than in the case of the ordinary company. A person may become a member of a credit union any time after birth. I think that is correct. And administration is put in the hands of credit union members when they are 17 or so. You find that a great many people who have no taxable incomes at all put their money into credit unions.

On grounds of convenience and a reasonable interpretation of the section, it is submitted that credit union officials should not be required to comply with the strict letter of Section 92. It appears that the usage in every province of Canada, except Saskatchewan, has been to relieve credit union officials from the necessity of making these deductions, and that it is perfectly sound law that where the provisions of any statute are ambiguous then the Court is entitled to look at the usage to clear up the ambiguity and if this rule is open to a court it is certainly open to a royal commission. (Craies Statute Law, 4th Edition, p. 141.)

Summary of Recommendations

1. The retention of the provisions of Section 4(q) of the Income War Tax Act with such clarification as is necessary to ensure the inclusion in the clause of federations of credit unions whether for educational or business purposes.

It might include co-operatives of the type with which your Commission is familiar. There is the constitutional point which I would urge with regard to any new legislation.

2. That section 92(1) of the Income War Tax Act should not apply to dividends payable to members of a credit union.

3. That the income of a credit union derived from investments be exempt as the investments are incidental to the main purpose of the credit union.

Here is a movement that has made some headway. It has the support of provincial legislatures that are in close contact with the needs of the people and deserves encouragement. Moreover, this is a type of organization that can be related to the tax problem closely enough so that your Commission is entitled to recommend that the income of credit unions should not be taxed. I therefore urge the Commission so to recommend in its report.

MR. VAUGHAN: You spoke of the Federation being intended for educational purposes. Was it your intention to suggest that the federations be limited to such purpose?

MR. FRANCIS: They have no income anyway. They are more like a club.

MR. VAUGHAN: Another question. With regard to the use of the word "primarily", that is a pretty broad term. Would a proper interpretation, in your opinion, allow for

Mr. Francis

90 per cent, or 75 per cent or 50 per cent, or what? What would be a fair interpretation of the word?

MR. FRANCIS: I tried to get the exact meaning of that and I looked up two or three dictionaries. The best word I could find was "chiefly."

MR. VAUGHAN: It is hard to measure it that way. "Chiefly" might be 51 per cent.

MR. FRANCIS: That would not be my interpretation. I would suggest this: the Dominion Parliament used the word "primarily" and did not define it. It referred to provincial institutions in 4(q). Where do you go to find what these provincial institutions are like? You go to the provincial laws, and the limits placed on these incidental loans or incidental lending are very low in the provincial legislation -- \$5,000 I believe. I gave you a reference with all the provinces listed. Now since the dominion has not defined the word "primarily", I suggest that the fair test is the limit placed on these incidental loans by the provincial governments. I do not know where else you can go to find out what "primarily" means.

MR. VAUGHAN: If it is incidental, would not 90 per cent cover it?

MR. FRANCIS: It is made very low by the province. If a group of people join together with the idea of making investments outside, that is clearly outside the picture. But if a group of citizens form a credit union of the type we have been talking about and incidentally make these investments, then that does not debar them from the provisions of 4(q).

MR. VAUGHAN: "Incidental" would imply a very small extent.

THE CHAIRMAN: Which is the more profitable investment -- the loan or the outside investment?

MR. FRANCIS: The loans to members.

MR. VAUGHAN: Do you think it would be advisable or possible to define "primarily"? There is apt to be a question at any time about it.

MR. FRANCIS: I cannot suggest any standard or test to go by except provincial law.

MR. VAUGHAN: The moneys are to be loaned within certain territorial limits. Is there anything that prescribes the meaning of "territorial limits"?

MR. FRANCIS: I am subject to correction by Mr. Arnason, but I understand that credit unions may be set up for a certain area and they would have no powers to operate outside that area. It may be a municipality, a parish or a city. I say that the federations were set up to operate in the whole province and the fact that their operations may have been provincial-wide does not preclude them from inclusion in section 4(q).

MR. VAUGHAN: There is no way of defining what the extent of the territory shall be?

MR. FRANCIS: That is governed by experience.

MR. VAUGHAN: And their own by-laws. They can open it up as wide as they like.

THE CHAIRMAN: Not as far as Quebec is concerned.

MR. FRANCIS: It must be a group of people having a common interest. That is why I stress the importance of adequate government supervision.

MR. VAUGHAN: Do you think it comes properly within the functions of a credit union to have checking accounts, as in a bank?

MR. FRANCIS: Yes. That is part of the mechanics of operation, and any mechanical device that is used by others should be open to them.

MR. VAUGHAN: It begins to look a little more like banking if they issue cheques.

MR. ARNASON: With regard to the question which was asked Mr. Francis, I believe the practice is to require the credit union to designate by by-law the limits within which it operates, and these by-laws are subject to the approval of the Registrar.

MR. PARKER: May I ask my learned friend one question by way of clarification with respect to the argument about deductions. He says that shares and deposits are substantially the same thing. I suggest that instead of relieving them from the necessity of making deductions in respect of shares, they be required to make deductions in respect of shares and deposits as well. What have you to say to that suggestion, Mr. Francis?

MR. FRANCIS: If my learned friend would like to have that change made, I suggest that the same rules be applied to the banks. There is a margin of \$100.

MR. PARKER: No one has ever told me that my miserable deposit of \$100 was anything like a bank share.

MR. FRANCIS: The bank is not required to make deductions of interest paid on deposits. My learned friend is suggesting that these people, who do this work out of hours on a voluntary basis, should be required to do something that the people in the banks do not do.

MR. ELLIOTT: Would there be considerable objection to a formal requirement that they report, as banks do, returns of interest in amounts of \$100 or more?

MR. FRANCIS: None whatever.

MR. PARKER: Whether on shares or deposits.

MR. ELLIOTT: Yes.

MR. FRANCIS: Certainly not.

MR. PARKER: Treat them all alike.

THE CHAIRMAN: Thank you, Mr. Francis.

Adjournment at 12.30 p.m.

(page 7920
follows)

Pursuant to adjournment the Commission met at
2 o'clock p.m.

THE CHAIRMAN: Yes, Mr. Francis?

MR. FRANCIS: My lord and gentlemen, it is now my duty to present to the Commission an argument on behalf of a large number of co-operatives which I represent. I am afraid that this is going to take some time, though not more than I can help. I realize something of the magnitude of the task that has been assigned to this Commission. I realize something of the public interest that has been taken in the work of the Commission and the interest which the report of the Commission will attract across Canada. I am approaching this argument in the hope that what I have to say may be of some assistance to this Commission. From time to time in this country, as in other countries, we get into a bit of a tangle and a body of men is selected to try to unravel that tangle and find a solution; and it is the duty of all citizens, including ourselves, to try to assist that body of men in unravelling that tangle and finding that solution, and that is the attitude we take in approaching this matter.

I may say also that I am taking some time because I feel a great responsibility to the scores of thousands of people who are represented here, directly and indirectly. They have gone to a great deal of trouble in preparing submissions and in appearing, and I feel that having done that, they expect me to make the very best presentation I can of their case. So if I take a little more time than perhaps this hot weather would seem to justify, it is for the reasons I have mentioned.

First I should like to have a correction made in the outline of my argument with which you have been supplied; I should like to have section 28 B on page 37, deleted. I again propose to follow the general outline, as found in the terms of the reference; and I have set up the outline on that basis.

According to the preamble, to which slight reference has been made, set forth in the order in council P.C. 8725, doubt has arisen as to the effect of the Income War Tax Act and Excess Profits Tax Act, 1940, in the case of co-operative corporations. That there is such a doubt has been amply established by the evidence adduced before the Commission.

Under the terms of reference the first task assigned to the Commission is set forth in clause (a). This task is "to inquire into the present position of co-operatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940." Attention is therefore directed to the following; and I should like to deal with this briefly under two headings:

(a) The present position of co-operatives under Section 4(p) of the Income War Tax Act.

(b) The present position of co-operatives apart from Section 4(p).

I think if I make that division at this stage it will clarify matters. So I proceed to deal with the present position under section 4(p).

THE CHAIRMAN: That would be roughly the legal as against the statutory position? Perhaps I should not say the legal position; it would be the common law position, as against the statutory position?

MR. FRANCIS: Yes; and I should like first of all to deal with the statutory position, because we are confronted with a general request that the large group which I represent should be taxed under section 4(p), and I wish to deal for a moment, or for a little while, with section 4(p).

I may say that my general position is this; that I am contending that the co-operatives which I represent, with one or two exceptions, come under section 4(p). That is my general submission; that is, apart from those that do more than the fixed percentage of business with non-members. There may be a few exceptions to that, but that is my general submission. I am going to try first of all to bring the great body of the co-operatives whom I represent under section 4(p).

MR. PARKER: Did I understand my learned friend to say that the only way some of them are outside of 4(p) is because of the excess of non-member business?

MR. FRANCIS: I did not hear my learned friend's question.

MR. PARKER: Do you say that any of those whom you represent, who do not come within section 4(p), are out because of the excess of non-member business?

MR. FRANCIS: No; I say nearly all.

MR. PARKER: That is what I wanted to get clear.

MR. FRANCIS: Present position under section 4(p):

To determine the meaning of section 4(p) from a legal standpoint we must, of course, look at the language used in the clause, and if the language is clear and unambiguous we cannot look beyond the language. As the preamble to the terms of reference states, and as the evidence before the Commission shows, the language of section 4(p) is not

entirely clear. There has been a widespread misunderstanding about section 4(p).

Attention is first directed to certain provisions contained in section 4(p). It is submitted that on a correct interpretation of this section it covers all of the co-operatives, with perhaps one or two exceptions on behalf of which this submission is made. Those which have done business with non-members in excess of that percentage permitted by the clause are, of course, excluded and have been required to pay taxes. To support this submission attention is drawn to certain key words in section 4(p).

Other like co-operative companies and associations:

It has been strongly urged before this Commission that, because of the use of the words "farmers", dairymen's, etc.", that the classes of persons to be included in section 4(p) are limited to primary producers, and that the use of the words "other like co-operative companies and associations", which follow the enumeration would, according to the ejusdem generis rule, extend the exemption to similar groups of primary producers only. (Adamson - VI - 1769 and many other submissions). It is submitted that the ejusdem generis rule does not apply in this case, but that the words "like co-operative companies and associations" refer to companies co-operatively organized and operated. To quote from Craies Statute Law, 4th edition, page 167:

"The ejusdem generis rule is one to be applied with caution, and not pushed too far, as is the case in many decisions which treat it as automatically applicable, and not as being, what it is, a mere presumption, in the absence of other indications of the intention of the Legislature." "Unless you can find

a category" says Farwell, L.J., "there is no room for the application of the ejusdem generis doctrine" and where the words are clearly wide in their meaning they ought not to be qualified on the ground of their association with other words."

But we submit that there are many indications of the intention of parliament within the Income War Tax Act itself. It is quite clear that the intention is to encourage co-operative enterprises, not operated for profit, rather than to favour a particular occupation.

While the modern tendency is for the courts not to seriously regard marginal notes in public statutes it is not without significance that the marginal note to section 4(p) is: "Co-operative Companies and Associations", and not one signifying occupational groups. I think in the early years some attention, or a great deal of attention, was paid to marginal notes. I quite admit that this is not so important now, but there is some significance there.

Clauses 4(g) and 4(q) of the Act also show an intention to encourage mutual and co-operative enterprises, irrespective of the occupation of those participating.

There is no intention to limit the provision to companies and associations of persons of certain occupations, but the intention is to include companies and associations which are co-operative.

I might mention section 4(y) as well. Section 4(y) deals with co-operative housing, and there is no limitation there.

It might be argued that the words of the section "Farmers', dairymen's, etc." are suggestive of the types of

marketing associations referred to in clause (a), but under clause (b) any incorporated group of consumers purchasing their supplies and equipment is a "like" co-operative association. Such a group might be cutting logs in the forest or sawing logs in the mill. Is the essential difference contemplated by the statute between primary producer, such as loggers and labourers, such as mill worker, or is it between a non-profit and a profit company? It is submitted that it is the latter. The character of the new entity is determined far more by its structure, control and distribution of surpluses than by the occupation of the individuals who happen to hold shares or memberships.

There is not very much difference between the labouring men of Cape Breton forming a co-operative and the farmers of Saskatchewan doing the same thing. The difference is not nearly so great as the difference between a co-operative and a private profit company, as I will try to establish a little later on.

It will be noted that "like" qualifies companies and associations. "Like" means like that kind of an association, i.e. an association organized and operated on a co-operative basis. I think a careful examination of the language will lead to that conclusion.

If parliament had intended the other meaning it would likely have said "and other associations of persons in like occupations" or words to that effect. It is an association as described in the clause that is exempt. Now I have some support for this, as I will show in a moment.

According to the evidence, many co-operatives which could not be classed as primary producers, have not been assessed, or required to pay income tax. They have

obviously been deemed to come within the provision of section 4(p) that is in practice. As an example we might mention one of the oldest and largest associations in Canada -- The British-Canadian Co-operative Society Limited. It has never been assessed (MacDonald -- XII - 4366). Timmins is taxed on reserves and excess depreciation but does more non-member business than permitted by section 4(p) (Haapanen - VII - 2543, 2549). From general personal knowledge, as well as the evidence, we know of many other cases in addition to the one in Cape Breton.

There is sound legal authority for taking into account the usage in determining the meaning of the word "like". According to Maxwell on the Interpretation of statutes, eighth edition, page 26,

"another class of external circumstances which have, in peculiar circumstances, been sometimes taken into consideration in construing a statute, consists of acts done under it, for usage may determine the meaning of the language, at all events when the meaning is not free from ambiguity."

My submission is that the language here is ambiguous.

THE CHAIRMAN: There is no doubt that in the case of ambiguity, extraneous aids to interpretation are admitted. There is no doubt of that in law. I do not think you need to labour that legal point, anyway.

MR. FRANCIS: The reason I raise it is to show that there are external circumstances. I quite agree that that is the legal principle. Then, having applied that, we look to the external circumstances to see what we can find to show the real meaning. That is my point.

MR. NADEAU: If you will allow me at this stage, I understand you to say that an association might mean any kind of co-operative?

MR. FRANCIS: Organized on a co-operative basis.

MR. NADEAU: So I believe we should try to understand "like association" in relation to what follows. That would be right?

MR. FRANCIS: Yes.

MR. NADEAU: So the words "like association" would have to be interpreted in relation to sub-clause (a) and sub-clause (d), so that would cover the case of a consumer co-operative and also a producer co-operative, outside the farming field. Is that right?

MR. FRANCIS: Yes.

MR. NADEAU: So if your interpretation of "like association" is right, that would mean that any kind of producer body organized co-operatively could be tax-exempt?

MR. FRANCIS: Under section 4(p).

MR. NADEAU: Any kind; steel, automobile; coal; logging, or any kind?

MR. FRANCIS: Yes.

MR. NADEAU: Do you think it was really the intention of parliament to go to that extent when section 4(p) was enacted?

MR. FRANCIS: I have directed my attention to those cooperatives which I represent. The question raised by Commissioner Nadeau is a theoretical one. All I have considered is whether or not I can properly argue that every co-operative I represent comes within section 4(p).

Take the British-Canadian. That is a consumer co-operative, and I have thought principally of the British-

Canadian and similar co-operatives in this connection; I have not considered the theoretical point. I do not have to; I have not been carried that far.

MR. NADEAU: I believe we have to; I believe it is one of the purposes of our inquiry to try to learn what section 4(p) means.

MR. FRANCIS: I do not know that there are any co-operatives which would fit the description you have given them. I cannot recall any from the evidence.

MR. NADEAU: Otherwise, you see; if "like association" should mean any kind of co-operative, that would mean that any enterpriser could organize a co-operative for any kind of economic purpose and be tax-exempt, and personally I do not think that parliament intended to go as far as that.

MR. FRANCIS: Then may I put it in this way. My argument is that in so far as the co-operatives I represent are concerned, "like" can properly be interpreted in a way to include them. That is my position.

MR. VAUGHAN: What was the purpose of naming ~~any~~ of them at all if this was to be all-inclusive? Why would they name certain ones, if the intention was to have it all-inclusive, to cover anything organized in that way? Why not say that?

MR. FRANCIS: I do not think there is any doubt but that parliament had been dealing with the matter of certain types, and that no doubt they did have certain types in mind; I admit that. But what I am going to argue in a moment is this; that the usage for over sixteen years has been to include these other groups. That has been the usage.

MR. VAUGHAN: Yes, but we are getting back to your argument of intention.

MR. PARKER: Usage may include your group. Does usage include all others organized in that way?

MR. FRANCIS: What I say is that it is not perfectly clear what "like" means; it is open to argument either way.

THE CHAIRMAN: There is another point of view, as you know; that "like" is not applied in just the way you are making it apply now but that "like" means, "as the primary producers." That is an argument that is made, and it is an argument that has a semblance of reason.

MR. FRANCIS: It is a very good argument.

THE CHAIRMAN: It depends on what point of view you take when you approach this argument; if you approach it from a restrictive point of view or a liberal point of view.

MR. FRANCIS: A liberal point of view.

THE CHAIRMAN: Is it not a fact that a tax law is restrictively viewed?

MR. FRANCIS: I quite agree.

THE CHAIRMAN: Therefore should not this section also be restrictively viewed?

MR. FRANCIS: I agree with that general principle, but I say this; that it is ambiguous and that it is open to the argument your lordship just mentioned and it is also open to the argument I have advanced. We take that ambiguity, plus the usage for over sixteen years, and we say that because others have been brought in and included, we are entitled to say that is what it means.

THE CHAIRMAN: I do not know that because a departmental official interprets a section in any particular way, that gives it any greater validity than it would have if it were given a proper interpretation.

MR. FRANCIS: I have an authority on that point, in

Australia..

MR. PARKER: Not as against the crown?

MR. FRANCIS: I should like to put the authority before the Commission in a moment.

THE CHAIRMAN: Very well; I do not want to interrupt your argument.

MR. FRANCIS: I quite agree that a taxing statute must be shown to cover a group; then if anybody wants to come under an exemption, the onus shifts to that group.

THE CHAIRMAN: Of course there is another approach to that same point, from the other angle.

MR. FRANCIS: That is so, but I am relying at the moment on the ambiguous nature of the word "like".

THE CHAIRMAN: Without that you would have nothing to say.

MR. FRANCIS: That is right; I would not be arguing.

MR. VAUGHAN: Is it not a fact that it is copied from the United States Act?

MR. FRANCIS: Almost word for word.

MR. VAUGHAN: Well, in the United States they definitely interpret that word "like" to apply to the occupation. That is a definite interpretation.

MR. FRANCIS: That is right, I think, and that is very interesting, because it is so ambiguous that in one country they interpret it in one way and in another country they interpret it in another way.

MR. VAUGHAN: It is copied from the United States Act and that is the meaning they take from it there. Their regulations call for it to be treated in that way, and that is the way they actually treat it; that is, "like" applies to the occupation, and not to the organization.

MR. FRANCIS: I should like to say this, that if I were drawing a section to cover everybody, I would not draw it just like section 4(p); I would not draft it quite in that way.

And according to Craies on Statute Law, Fourth edition, page 141, referring to Ohlson's case, 1891, 1 Q.B. 495, at 489, and quoting Stephen, J.,

"What weighs with me very greatly in coming to the present conclusion is the practice of the inland revenue commissioners for the past sixteen years."

MR. PARKER: What was that case?

MR. FRANCIS: It was a taxation case; I have not the report.

MR. PARKER: Did they go into a taxation statute?

MR. FRANCIS: I have not the case before me.

On page 142 the author approved of the statement that where the words of an act are doubtful, usage may be called in to explain them, and also the following:

"Where the statute uses language of doubtful import, acting under it for a long course of years may well give an interpretation to that obscure meaning and reduce that uncertainty to a fixed rule, but it is quite plain that against the plain statute law no usage is of any avail."

(Lord Brougham in *Magistrates of Dunbar vs. Duchess of Roxburg* (6) Eng. Rep. 1462).

I would not be arguing unless "like" was ambiguous.

THE CHAIRMAN: What is the practice, the administrative practice of the department here? Has it been uniform?

MR. FRANCIS: I think perhaps it has been ambiguous.
too.

THE CHAIRMAN: You cannot tell much from the practice,
because three of the largest co-operatives are now in court
on that very interpretation.

MR. FRANCIS: I do not think they are relying on section
4(p), though.

MR. MILLIKEN: I think it is incorrect to say that it
is on the interpretation of "like"; they are in court with-
out any reference to this.

THE CHAIRMAN: They are in court on the whole question,
so the practice of the department in assessing them has not
been consistent.

MR. FRANCIS: That is so. I did not choose some obscure
association. I took the British-Canadian, the biggest one
with the longest record, and over all those years they have
not been assessed, but they are clearly outside if the other
interpretation is put on the word "like". For sixteen years,
the same period as in the case I quoted, there has been no
assessment or taxation.

MR. NADEAU: If I remember correctly I think some
consumer co-operatives were taxed by the department.

MR. FRANCIS: Yes. That bears out what his lordship
just said, that there is confusion.

MR. NADEAU: That came out in the evidence.

MR. FRANCIS: But nearly every one of those is a case
of where it was over the twenty per cent. Take Timmins;
do you remember Mr. Haapanen's evidence?

THE CHAIRMAN: If Mr. Steer were here he would tell
you that he is taxed.

MR. FRANCIS: Yes, but he is over the twenty per cent.

Take the Lloydminster case; they were taxed because they were over the twenty per cent. When they came below it, they were clear, and that was a consumers' cooperative; and there are others. I think there is an argument there, because we are defending at the moment, at this particular session.

In presenting a brief on behalf of the Saskatchewan Employers' Association, Mr. Arthur Moxon, K.C., former Dean of the College of Law, University of Saskatchewan, readily admitted that on account of the use of the word "like", it was quite open to argue that "like" had reference to the method of organization rather than to the occupation of the members. The following, outlining the practice, is an excerpt from the brief presented by Mr. Moxon on behalf of the Association. He investigated this matter, and this is what he found the practice to be, and he was opposing co-operatives:

"If it is a like company or association in its organization, regardless of the fact that its members may be urban dwellers, retail co-operative associations, or gasoline service station operators, for instance, is entitled to the exemptions provided in this subsection. The exemption from taxation has extended to all the surplus earned and retained by co-operatives regardless of membership or of the nature or kind of activity in which they are engaged."
(Moxon - IV - 1249).

I take that as an admission from the interests which are opposed to co-operatives, and that is evidence placed before this commission showing what is the practice.

MR. PARKER: Is it any more than the opinion of one solicitor?

MR. FRANCIS: I take it the organization stands behind it. You will remember that in the evidence, in connection with the statement put forward by Mr. Moxon, he mentioned how this had been investigated, and this is what was found. It was brought seriously before this Commission as to the situation, and I am relying upon it. Surely I am entitled to do that?

MR. PARKER: Surely.

MR. FRANCIS: As a matter of interpretation and because of usage it is submitted that in so far as the present position is concerned a broad interpretation should be given to the word "like".

It is further submitted that a liberal interpretation should be given in view of section 15 of the Interpretation Act of Canada, which reads as follows:

"Every Act and every provision and enactment thereto, shall be deemed remedial, whether its immediate purport is to direct the doing of any thing which parliament deems to be for the public good, or to prevent or punish the doing of anything which it deems contrary to the public good; and shall accordingly receive such fair, large and liberal construction and interpretation as will best ensure the attainment of the object of the act, and of such provision or enactment, according to its true intent, meaning and spirit.

R.S., C.1, S.15."

My submission here is weakened by the rule laid down a moment ago, I think, by your lordship; that is, the rule that applies to taxation statutes, but I think it should have some weight.

Apart altogether from the foregoing, it is submitted, however, that the Commission is justified in considering the parliamentary history of this enactment. While a court of law might not be entitled to do so, it is respectfully submitted that a royal commission is not limited by the strict rules of law, and that in a matter of public interest of this kind, the real intention of parliament should govern. When the minister in charge of the bill was asked in the House of Commons this question: "Was the exemption to include co-operative stores run on the Rochdale plan", his reply was "Yes". (Hansard 1930, page 2504).

There is the real intention, and when the words are ambiguous surely we are entitled to look at the real intention.

THE CHAIRMAN: I would rather have the reply of a court than the reply of a minister.

MR. FRANCIS: Yes, but we have to do the best we can. We have not the reply of a court, so I take the next best thing.

MR. PARKER: Is that all that was said by the minister, that one word?

MR. FRANCIS: I am going on with that. The whole statement made at that time is in evidence, put in by various interests. I do not put that in; it is all there, and you have heard it. There was a good deal of discussion that took place.

THE CHAIRMAN: Yes, we have all seen that.

MR. FRANCIS: I hope I am not misleading the Commission by taking out these words, because you have the whole statement; it is not as if it had not been before you.

When the bill was before the house for second reading another minister of the crown in reply to a question stated: "It is intended to recognize co-operative marketing and purchasing associations." (Hansard 1930, page 2644). There is, therefore, no doubt as to what was intended by the 1930 amendment, viz., to exempt income of co-operative generally, provided they complied with the non-member limitation.

In view of the varying and conflicting interpretations made at different times in different parts of Canada, it is submitted with respect, that a Royal Commission is quite justified in looking at the parliamentary history of this enactment, with a view to finding out what parliament really intended to do.

Organized and operated on a co-operative basis. As the word "co-operative" is not defined in the Income War Tax Act, nor in the Interpretation Act, it is therefore submitted that the co-operative basis must be found in provincial legislation, which sets out the requirements. In this regard the word "co-operative" means much more than a name. This matter is dealt with in "Words and Phrases Judicially Defined", Volume I, page 561:

"Whatever characteristics may be required in order to bring a company within that expression. (i.e. Co-operative Company in Section 4(c) of the Income Tax Assessment Act). It seems reasonably clear that the company must possess them by virtue of its constitution The company itself must be a union for co-operation."

There is no other place to look. The words must mean something. They are found in this Dominion Act, "organized and operated on a co-operative basis." Where else are you going to look? There is this Australian case dealing with the very point, and therefore I say that we are driven to those co-operatives that the Parliament of Canada had in mind. They are the only ones they could have had in mind. Where else can we look to find the meaning of the words, "organized and operated on a co-operative basis"? When an income tax act is silent on any point, and the province has competent legislative jurisdiction, I do not see how a dominion can question that, because you have no other guide; you have nothing else to go by.

This is taken from the Judgment in Shelly v. Federal Commissioner of Taxation, 1920 - 43 C.L.R. 208. Dickson J., page 231 (Australia). This again emphasizes the importance of the construction and the type of organization to be assessed. Since almost all co-operatives were under provincial legislation at the time 4(p) was enacted, the reference to co-operatives must have referred to these associations. That is all I have to say on that.

With or without share capital: According to a ruling of the Income Tax Department, a co-operative which pays interest on capital thereby loses its status as a co-operative, and is excluded from the benefits of section 4(p).

MR. PARKER: Are you referring there to the same thing Mr. Steer was referring to yesterday?

MR. FRANCIS: Yes.

THE CHAIRMAN: There was a letter filed with one of the briefs to that effect.

MR. FRANCIS: Yes, and the evidence of Mr. McKay in

Saskatchewan was that they had been concerned about this. That was referred to by my learned friend Mr. Steer. I should like, if I may, to adopt much of the argument presented on this point by my learned friend yesterday. I might be able to save time by doing so. I intended to amplify this, but do not think it is necessary.

THE CHAIRMAN: I think that was covered very well yesterday.

MR. FRANCIS: I think I will just rely on Mr. Steer's argument to save time.

It is clear from the above words that parliament contemplated that an association having share capital would be included in the exemption, and the inference is that parliament also contemplated that some return would be made on that share capital. By the year 1930 the Rochdale principles which were formulated in the 1840's were well known, and were almost synonymous with the term "co-operative basis". It is well known that one of the Rochdale principles provided for a reasonable return on share capital before the distribution of the surplus on the patronage basis. Further, provincial co-operative legislation usually recognizes this principle by placing a definite limit on the amount of interest on share capital which may be paid. By use of the term "co-operative basis", and the reference to share capital, it must have been contemplated that a fair return on capital would be permitted by a co-operative without it losing its status under the exemption. It is respectfully submitted that the ruling is not in accordance with either the true or expressed intention of 4(p).

Members or shareholders. The history of co-operative organization in Canada, which is confirmed by evidence before

the Commission, shows that, generally speaking, producer organizations had provided for memberships, and consumer co-operatives were set up on a share capital basis. There are exceptions and the recent tendency in some provinces has been for consumer associations to be established on a membership basis. (Savage - VII - 2393 and Saskatchewan Co-operative Associations Act). The term "shareholder" has a definite meaning in law, and can easily be ascertained. The general practice is for a person to become a shareholder of any corporation by applying in writing, having his application approved by the directors and having notice of the allotment by the directors sent to the applicant. I am speaking now of the general joint stock company method, with which we are all familiar.

Certain provincial statutes, however, such as those of New Brunswick and Saskatchewan, provide for the creation of shareholders by statute on the fulfilment of certain conditions, namely, accumulation of patronage dividends from trading and approval by the board of directors. It is submitted that it is within the jurisdiction of the provincial legislature to provide for shareholders so created to have the same status as persons who become shareholders through the application and allotment procedure. With respect to members it is submitted that members include all those who become such by virtue of the by-laws of such co-operatives. Provincial legislatures with jurisdiction over property and civil rights have power to legislate as to what constitutes membership. There is no other test by which to determine membership. I say there is no other test because "member" and "shareholder" are not defined in the tax act. If they were defined, that would be the end of it, but we are left

to go elsewhere to find the meaning, and I submit there is nowhere else to go but to the provincial legislation.

Under an obligation to pay. The word "obligation" has more than one meaning. This is a word that has received a great deal of attention before this Commission.

It has a strictly legal meaning, and a more general meaning. The strictly legal meaning is found in Stroud's Judicial Dictionary, Volume 2, page 1305.

"Obligation is commonly taken in the common law for a bond containing a penalty, with condition for payment of money, or to do or suffer some act or thing, etc."

THE CHAIRMAN: We go further than that in Quebec.

MR. FRANCIS: Oh, do you?

THE CHAIRMAN: Yes. However, go ahead.

MR. FRANCIS: The above is confirmed by the definition which appears in the Shorter Oxford English Dictionary as follows:

"Obligation - In English law, a written contract or bond under seal containing a penalty with condition attached. Also the right created or liability incurred by such an agreement, document or bond."

It cannot possibly mean that. It is submitted that the word "obligation" as used in section 4(p) cannot possibly be intended to have a strict legal meaning as defined above. There is no provision for a bond or a penalty. In section 4(p) a written obligation is not even required. I think some attention should be paid to that. It says "obligation" not "written obligation". Nothing is said about it being in writing.

It is submitted that not being defined in the interpretation clause, we should give the ordinary dictionary meaning to the word "obligation". It is not defined anywhere.

According to the Shorter Oxford English Dictionary "obligation " means:

"The condition of being morally or legally obliged or bound; a moral or legal tie binding to some performance; the binding power of a law; moral precept; duty; contract; etc."

If it does not mean one of these, what does it mean?

This word has given me a lot of difficulty. I do not want to come forward with an argument which is not sound, but what does it mean? That has been the difficulty, and I submit that the general rule of interpretation is this, that if you have not a definition in the act, you look to the dictionary.

THE CHAIRMAN: Not that last definition. Where does the idea of enforceability come in, which is essential to an obligation? A moral obligation is not enforceable at law, but it may be perfectly binding upon one's conscience. That definition is far too wide for an obligation, used in a statute as a legal word.

MR. FRANCIS: That is a point which gives a great deal of difficulty. I think it depends upon the point of view. If you approach that word from the point of view of business, in the ordinary sense of a company carrying on business, then I agree entirely. If you approach it from the point of view of a neighbourhood group doing certain things among themselves, then it seems to me that you can give it a little different meaning. There are the two points of view.

A great many of these cooperatives did very much like the old beef rings, the sawing outfits, and so on. Neighbour A would arrange with neighbour B to exchange work. There is no enforceable contract there, but there was an obligation, and we know that such an obligation was recognized as being very important. These cooperatives are something like that. They start from the neighbourhood; they merge the people themselves into groups, so an "obligation" to these people does not mean an "obligation" as that word is understood by a great financial corporation, for instance.

A great deal has been said in the evidence as to the word "obligation", but it is submitted that the proper construction is to take the ordinary dictionary meaning, and where members are dealing with themselves through their own co-operative association, all that is required is a moral obligation, which might be expressed in a contract, in by-laws, or which may not be expressed at all, but may be established by usage. It is submitted that in any neighbourhood or community the obligations which are regarded the most important are seldom reduced to writing and are not binding in a strictly legal sense. They are not enforceable, I grant. Even in the most extreme cases to which objection has been taken the directors, under the by-laws, must return all surplus or, where the members so desire, use any undistributed amounts for the purpose of rendering further services to them. So there is your obligation, set up in a peculiar way, I quite agree, because we are dealing with a different pattern here.

The fundamental concept of a co-operative is based on this obligation. As the evidence shows and the provincial statutes and by-laws provide, in producer co-operatives the

organization markets under an obligation to pay the proceeds to the members; but, if the members do not wish to accept immediate payment and delegate the authority to decide on such a matter, that does not in any way destroy the obligation. Section 4(p) does not provide for immediate payment or payment at the end of the year. If parliament had intended the obligation to be carried out immediately it would have said so. The same considerations apply to consumer co-operatives. Supplies and equipment are turned over at cost. That obligation is always kept in sight. The balance of the estimated purchase price which is found to be an overcharge is accounted for to the members and is disposed of in conformity with their instructions in annual or special meeting.

The evidence shows a very great variety of by-laws and schemes. Some of them have been poorly done. Some are incomplete. Some were planned with people with little education, but the main thing was to do a job to meet a need. I quite agree, looking at all this mass of information that has come before the Commission, it is not satisfactory, because most of it or much of it was prepared at a time when there was little supervision; very little help from anybody; no legal assistance -- maybe that was an advantage. But all that happened at that time, and here you have a situation where people have done the thing. Now when you come back and look at it, it may not be a very good job, but they did establish an instrument or a vehicle to do a job for them. No doubt if they were doing it again, they would make a better job of it. It is not perfect, but it did the job. It is all very well for us to look back critically upon this bridge, if you like to call it that, which took them over the river. It is all very well for us to do that and be critical, but

let us consider the conditions under which the work was done. Let us consider everything, and I do not think they did a bad job. But they were not thinking very much of relying upon obligations, at all events until 1923.

THE CHAIRMAN: If you were engaged to argue the other side of that case I think you could make a pretty strong case on the word "obligation" too, could you not?

MR. FRANCIS: I have not given that much attention.

MR. NADEAU: Do you think it would be a correct interpretation or a sensible interpretation to say that the obligation to pay should be fulfilled in the course of the fiscal year, or a little after?

MR. FRANCIS: I do not think it would be possible in all cases.

MR. NADEAU: I added "or a little after"; perhaps within a year and six months, not several years.

MR. FRANCIS: One finds so many conditions it is hard to just draw a line. There may be a period there, and I quite agree that there is an argument on the other side.

THE CHAIRMAN: Oh, yes, there is.

MR. FRANCIS: But the other side is pretty well furnished with people to argue it.

MR. NADEAU: While we are on this subject, do you consider that an allocation is a payment, an obligation to pay?

MR. FRANCIS: Within the meaning of this section, yes, on the interpretation I am giving.

MR. NADEAU: Under your own interpretation it would be a payment?

MR. FRANCIS: Yes.

MR. NADEAU: But do you think that with the relationship which exists between debtor and creditor, the creditor is

really paid when the debtor gives credit to him in his books? Is that real and actual payment?

MR. FRANCIS: I think in English law we call that a chose in action, that a chose in action is established on the allocation.

MR. PARKER: That is scarcely an action.

THE CHAIRMAN: What is a chose in action?

MR. FRANCIS: It may be an entry in the books; it may not be enforceable. We have a law which says it should be in writing. I do not know what the French equivalent would be.

THE CHAIRMAN: The French equivalent would be an "obligation" which is obligation.

MR. FRANCIS: That is what I am arguing. Then we are in agreement, because I say it is an obligation and the French say it is an obligation.

MR. ARNASON: Mr. Francis, with reference to the first question which Mr. Nadeau asked you, as to whether the transaction or the payment should be completed within the fiscal year or shortly after, I suppose that would depend to some extent upon the nature of the transaction? That is, there are certain transactions, particularly with respect to the marketing of some products, which might not be completed within the fiscal year?

MR. FRANCIS: That is why I hesitated about giving a categorical answer.

THE CHAIRMAN: What I think Mr. Nadeau means is beyond the termination of the particular period, whether it is three months, five months, eight months or whatever it may be. There is a normal termination for the year's business, and I think that is all he means in that question.

MR. NADEAU: And I would add to that, as long as the obligation to pay is enforceable at law a year or six months after.

MR. FRANCIS: I quite agree. I was taking a calendar year or some arbitrary period; but if the transaction is completed, I cannot see any objection to saying, "Well, let us make a settlement." That is what it amounts to, if the transaction is completed.

MR. ARNASON: In reference to this much discussed word "allocation", do you think it would be desirable from the standpoint of co-operative practice, bearing in mind the point that Mr. Nadeau is raising in regard to the enforcement of an obligation, to designate in the by-law itself the time within which the member to whom this share of the earnings has been allocated can expect to be paid? That is, it would depend upon the member whether he insisted upon payment.

THE CHAIRMAN: Do you mean the possibility of spreading it over several years?

MR. ARNASON: I had not any definite period in mind, but rather than leave it to the discretion of the directors as to when payment should be made, it might be in the by-law itself, so that when a member joins he is then bound by the provisions of the by-law as if he had signed a personal covenant.

MR. FRANCIS: If you are asking what I think, I do not suppose you are really interested in what I was thinking. All I can say is that in marshalling the evidence I found a difference of opinion on that point, and the difference depends upon the experience of the witness. A number of witnesses, you will remember, said, "We do not think that

is sound, because our business is of such a nature that no one can say arbitrarily what is the period." Others felt that in their business they might agree to that. But there is no use in me giving my opinion; all I can say is, here is the evidence and there is a difference of opinion on that point.

THE CHAIRMAN: But there are throughout the evidence many statements of a very arbitrary period of time, is there not?

MR. FRANCIS: Yes.

THE CHAIRMAN: Fixed by the directors?

MR. FRANCIS: Yes; and it is fixed according to the nature of the business, I think.

THE CHAIRMAN: No, not the nature of the business; the "requirements" of the business. I believe that is the word.

MR. FRANCIS: That is better; the requirements.

THE CHAIRMAN: The requirements of capital. That is what it is.

MR. FRANCIS: Thank you; that is better. So I do not think, sir, that I can be very helpful there, except to point out what the evidence shows, because I am simply here in the position of trying to make the best use of this evidence to help the Commission.

THE CHAIRMAN: Then I will not interfere any more. I know you have a big enough job.

MR. FRANCIS: That is not interference, my lord. We say that under provincial statute you also find this obligation. It is not very clearly expressed, but there is an obligation in the provincial statutes.

Now I come to, "necessary expenses and reserves." I should like to make an observation on this point.

The question of the reserves comes up under two aspects in this discussion. I am now arguing, trying to convince the Commission that as to the past, reserves meant a certain thing, and that "necessary reserves" had to be given some meaning. What I have to say on this is entirely different, or at least not different but is apart from what I should like to say about reserves later on, as to the future. That is, we are dealing with two problems; one is the past and one is the future, and I should like to segregate those and limit my discussion now to the meaning of "necessary reserves" in section 4(p) and to what I conceive or what the evidence discloses should be necessary reserves in the future.

According to Stroud's Judicial Dictionary, Volume 2, page 1252,

"It may probably, as a general rule be stated that those things are 'necessary' to the doing of a thing, which are reasonably required, or legally ancillary to its accomplishment."

Here again I have had a good deal of trouble over these words, "necessary reserves," but they are there and we have to deal with them in a commonsense way. I think an argument could be put up on the other side as well.

It is submitted that the provincial legislature in passing legislation for the creation of co-operatives has the legislative power to stipulate what may legally be required in the matter of reserves. It is further submitted that it is necessary for co-operatives, organized and operating under provincial statutes to comply with that law. Therefore, any reserves which are reasonably required, or are legally ancillary to the accomplishment of its purpose are "necessary".

and this is the meaning which should be given to "necessary" in section 4(p). There is judicial authority for that. There must be some test given. Again I do not know where to go if I do not go to the provincial legislature, to find the test. Those are the organizations that parliament had in mind. I do not know where else to go.

For example, the education reserve usually allowed under provincial legislation may be considered necessary in lieu of advertising, an expense of profit business which is not questioned by the income tax authority as long as it is reasonable. Cooperators deal with it a little differently. It is a fair assumption that the provincial legislature considered such an expense reserve "necessary" within the limits set out in their act or it would not have enacted the permissive legislation.

That is all I wish to say about reserves. I should like to come back to that, however, under the other heading, when I will deal with the future.

Now I come to the words, "organized for the purpose of financing their operations."

This is important to these federations. We have a number of them; there is Canadian Co-operative Live Stock in the east; United Farmers Cooperative Company in central Canada, and the wholesalers of the west, and the Federated Co-operatives. It has been suggested that "financing" had a certain meaning. I do not know what "financing" means in this section. It is open to two or three interpretations, and I am free to admit that it is very difficult to know exactly what it means.

I should like to say this, however; that at page 1274 of the evidence given by Mr. McKay on behalf of the

Federated Co-operatives, he pointed out that in 1940, five years ago, when the business of his organization was beginning to grow, he tried to get answers to certain questions from the Income Tax Department so that he would know what his position was with regard to taxation. That is in the evidence. He submitted certain questions to the department, half a dozen of them, One of them was on the position of these subsidiaries and the meaning of "financing". Five of the questions were never answered. One of the questions was answered, and the one that was answered was to the effect that if you paid interest on share capital, then you were no longer entitled to come under section 4(p). So there was not very much to do but carry on.

It has been suggested that certain federations of co-operatives have not been organized for this purpose, and do not come within section 4(p). One dictionary meaning of the verb finance is:

"To manage the finances or monetary affairs of; conduct financial negotiations for; provide funds for. To manage financial affairs, devise ways to meet obligations, as by securing loans."

(Funk & Wagnalls Standard Dictionary).

For many local consumers and supply co-operatives this problem of financing is of great importance. In some provinces the general rule is that such co-operatives have not the power to buy on credit, except from another co-operative, or a federation of co-operatives, unless they have a capitalization of \$5,000 and have in addition passed a supplemental by-law. Those are in general practice called credit by-laws.

(Co-operative statutes Alberta, Saskatchewan and

Prince Edward Island). It is essential that there should be another organization set up for the purpose of financing the locals and this may explain the reason for the provision in section 4(p). I do not know what it means.

THE CHAIRMAN: Could you find any more obscure words than those last words in section 4(p), to express the meaning which you are attempting to point out?

MR. FRANCIS: I was not able, in my reading, to find any.

THE CHAIRMAN: Or any other meaning, as Professor Elliott adds.

MR. FRANCIS: But there is a unique thing about some of these co-operatives, that they could not buy on credit. You see, taking Saskatchewan and these other provinces, a local co-operative could not go out and buy from a wholesaler on credit, unless it was a very large co-operative that had a paid-up capital of more than \$5,000 and had passed a by-law, which was very difficult to pass, as Commissioner Arnason knows. Therefore there was no intermediate financing agency. They could not buy on credit from an ordinary wholesaler. But these federations, when they were set up under special legislation, had the power on the one hand to deal with the co-operatives which they represented, and on the other hand they could go into the markets and buy from manufacturers, brokers and so on.

That is one explanation of what it meant, that type of organization that was necessary to bridge the gap between the local with the limited power and the outside manufacturer; that this was the type of organization to bridge that gap. I do not know how valuable that is, but there is a point which may be of assistance.

What other type of organization could parliament have had in mind. There is no evidence to indicate there was at the time of the enactment, any other type. As fully explained in the testimony of Mr. McKay, the federation is regarded as an instrument for the use of association members. Probably the most important use is "financing" as defined. Section 4(p) does not restrict the last paragraph to associations organized for the sole purpose of financing. If financing is one of the purposes, then the federation meets the requirements of 4(p). They may and no doubt did have other purposes, but financing is one of them.

THE CHAIRMAN: That is very skilful, Mr. Francis.

MR. FRANCIS: I would not like to put it on that ground. I admitted at the outset that I did not know what it meant.

THE CHAIRMAN: That is why I say it is very skilful.

MR. FRANCIS: At all events I am sure your lordship would agree that there is a certain amount of ambiguity about it.

THE CHAIRMAN: It is suggested that we adjourn now for a few minutes.

MR. PARKER: I notice that in dealing with section 4(p) my learned friend, no doubt inadvertently, has omitted to tell us his views on the word "marketing." I intended to ask him that question before he finished, but I will put it now and if he thinks it desirable he might say something about it later on.

THE CHAIRMAN: How long do you feel you would like to go on to-day? We do not want to tire you; we have all day to-morrow. Will half past four be too late for you to-day?

MR. FRANCIS: I think perhaps another hour, after we have a short recess.

THE CHAIRMAN: Very good.

Upon resuming:

MR. FRANCIS: I have some definitions of financing, but I think perhaps the Commission is sufficiently confused without my giving them to you.

I should like to say just a word about subsidiaries before leaving this matter, "financing their operations." What is included in subsidiaries? That is, theoretically it is possible for a co-operative or a group of co-operatives to set up to meet a certain need to form a subsidiary and have that subsidiary go into some entirely different business; and you could give some ridiculous examples of what would happen. I suggest that a commonsense interpretation would be to put some limitation on "subsidiaries". The words "their operations" mean financing the operations which the local associations were set up to carry on. That is putting a limitation, but it would cover some extension of the service, we will say.

May I give an example. Take the Federated Co-operatives. They did have in their charter power to mill, but it was not very clear or at least it was not quite clear as to whether that meant flour milling and all that was involved in it. A subsidiary was set up that went into the milling business, wholly owned and wholly controlled by Federated Co-operatives. I think perhaps I took a bad example, because I believe that is one of the cases where we may be liable to taxation. That is where the fingers are crossed. However, I will stay with it now, but frankly you will remember the argument there, that some forty or sixty per cent of the business of the mill, I think, was done with non-members, but that

if you took the mill business and put it with the business of the parent organization, then it was well within the percentage allowed. However, that may be one co-operative that is properly taxable.

However, it seems to me that these words "their operations," meant the operations for which the local was set up, but which for some reason it could not perform. There is a possible interpretation. They have the same thing facing them now in regard to mining. There is some difficulty about mining in another province.

MR. VAUGHAN: Do you mean that a subsidiary like that, a producer subsidiary, should not be allowed to go into the making of boots and shoes, for instance, because that is not part of their marketing?

MR. FRANCIS: I am thinking now of a consumer subsidiary.

MR. VAUGHAN: But this milling would be a producer subsidiary.

MR. FRANCIS: No, it is a consumer at the present time. I am trying to stick to the evidence, and in the evidence there is the story of the consumers' co-operative mill which is owned and controlled by the consumers' co-operative. Conceivably a producers' co-operative could also have a mill, which would also be a subsidiary. I am not dealing with that at all. That is dealt with in the grain briefs, and I have nothing to do with that.

THE CHAIRMAN: I suppose the best instance of "financing their operations" is the instance of the C.W.S. in England, which has a bank organized for the purpose of financing the enterprise, and it does finance it and does other business as well.

MR. FRANCIS: That is a very good example.

THE CHAIRMAN: And it ranks as one of the very large banks in England at the present time.

MR. FRANCIS: I did not realize that its banking functions had grown so large.

THE CHAIRMAN: Oh, yes.

MR. FRANCIS: I knew it was in the banking business, but it is in it to a large extent, is it?

THE CHAIRMAN: It is right there at the head office of the C.W.S., with a separate manager who is a member of the Board of the C.W.S.

MR. ARNASON: We were told that it ranks as about the seventh largest bank in England.

MR. FRANCIS: That is very interesting. I think of subsidiaries in this light, that a subsidiary is simply another institution, of a peculiar type, perhaps, that is fashioned to be used on behalf of groups of people gathered together in co-operatives, with certain special characteristics and legal powers, we will say. That is the interpretation I would suggest; that it is not an instrument to be set up for the purpose of, say, making a profit for itself or doing something else; it is part of the general plant of self-help. That is what I think it means.

I will not waste any more time on that. I have a note to mention incidentally the English and Scottish wholesale societies in connection with financing, but I did not know it was as extensive as you suggest.

MR. ELLIOTT: The banking department of the Co-operative Wholesale Society is very large.

MR. FRANCIS: Thank you. Then my learned friend Mr. Parker mentioned that I had not dealt with marketing.

MR. PARKER: I was a little premature; I am sorry.

I see it comes a little later.

MR. FRANCIS: The heading is perhaps a little misleading. Income. "Income" means all the income from whatever source received. Income of the Governor General is not limited to his income as governor general. Once a co-operative is brought within the terms of 4(p) then its entire income, investment and otherwise is brought within the exemption.

Answer to the claim that a co-operative that carries on processing is not a true co-operative: It has been contended that a marketing co-operative is not a "true co-operative" if it carries on processing. (Independent Dairies in British Columbia, I - 211 and others).

The Dairies were not admitted to be "true co-operatives" which carried on pasteurizing, homogenizing, grading, bottling, butter and cheese making. Great stress was laid on the meaning of the word "marketing". It is submitted that "marketing" has a well recognized meaning as applied to primary products.

Attention is called to the following statement found on page 119 of the book entitled "Agricultural Co-operation in Western Canada", by W. A. McIntosh, Professor of Economics, Queen's University.

I should like to point out that this was written some time ago, but as to this I give you what I think is an up-to-date statement on what marketing means. I quote first from Professor McIntosh:

"Although the operation of creameries may be correctly termed a manufacturing enterprise, yet from the point of view of the agriculturist, the creamery problem is essentially a marketing

problem. Manufacturing is incidental to marketing. The price of cream represents so large a proportion of the cost of butter, and the expenses of manufacturing so small a proportion, that the manufacturing process is absorbed in the marketing organization."

Further assistance on this point is found in the book entitled "Farm Management and Marketing", by Hart, Bond and Cunningham of Cornell University. That is quite a recent book; 1942, I think, and I suggest that it is authoritative.

On page 391, under the heading "What is Marketing" the following statement is found, and I call special attention to this:

"The marketing of farm products involves all of the steps in moving farm produce from the farm to the consumer. A series of services is performed in marketing each farm product. With some farm products such as milk, many costly services are required in cooling, bottling, testing, pasteurizing, refrigerating and so forth." And at page 392:

"Various Steps in Marketing, - "Some of the more important services required in moving farm produce from the farm to the consumer are: assembling and packing produce in the areas of production, transportation, financing, storage and warehousing, processing or manufacturing, price determination, and retailing the product to the ultimate consumer. Some farm products are subject to many of these marketing services and others to relatively few."

As one witness put it, a farmer can either kill his beef in the backyard or he, along with his neighbours, can do it in a more efficient manner collectively in an

abattoir, and these are simply extensions of the farm plant.

MR. VAUGHAN: In quoting Professor McIntosh, it would follow that if a small portion of the expense makes up the finished article and therefore is marketing, if the expense on other ingredients is a large portion, then it is not marketing. If you apply that to the smaller part and reverse it and apply it to the larger part, does the meaning change?

MR. FRANCIS: It is very difficult to draw the line. The word "incidental" has been used a great deal in the discussions and in the evidence; what is incidental to the marketing, but I do not know where you are going to stop.

MR. VAUGHAN: What I mean is that if we are going to place any value on that, we should take the reverse condition also, should we not? That is, if the expense on other items entering into the manufacture is a substantial part of the total, then does not that take it out of the meaning of marketing?

THE CHAIRMAN: That would be the case in connection with shoes. The cost of manufacture would be more than the cost of the leather from which the shoes were made.

MR. FRANCIS: May I put it in this way. The question is, are you marketing the product or are you doing something else, using various products? Is that a fair way to put it?

MR. VAUGHAN: It is just the degree of that processing that could be called marketing. I was just reading that article by Professor McIntosh, and he says if it is a small part, it is marketing. Therefore if other parts are small in connection with the original product and they are marketing, then if still other parts are large it would mean they

were not marketing?

MR. FRANCIS: You will remember the evidence of Mr. West. He drew a line somewhere, and he was one of the witnesses who was examined on this.

MR. VAUGHAN: I do not want to take any more time, but I think if you accept that one meaning you should be prepared to accept the reverse as well.

MR. FRANCIS: As far as I can go at the moment is to say that if it is incidental -- I think if I take that position it will cover the co-operatives I represent here; that if it is incidental, it should be considered part of the marketing.

MR. VAUGHAN: Supposing it is not incidental?

MR. FRANCIS: I do not think I have any co-operatives in that position.

THE CHAIRMAN: Supposing it is predominant?

MR. VAUGHAN: Yes; what then?

MR. FRANCIS: Then marketing is not the main thing that is being done. Is that not it?

THE CHAIRMAN: You say it is the main thing. Is not the processing the main thing?

MR. FRANCIS: It depends upon the meaning you give to the word "marketing" and I go to the experts to find what it means. They say this is what it means.

MR. PARKER: Who are these experts? Can you tell us who they are and what they do?

MR. FRANCIS: Yes. Mr. Hart is extension professor of farm management at Cornell. Mr. Bond is extension professor of marketing, and Mr. Cunningham is extension associate professor of farm management at Cornell.

MR. VAUGHAN: Cornell is entirely a co-operative

university.

MR. FRANCIS: I know it has a high reputation.

MR. VAUGHAN: I mean they develop the co-operative principles of Mr. Babcock, who is one of the leaders of the co-operative movement.

MR. FRANCIS: I knew it had a high reputation, but I did not know it had that attribute.

MR. VAUGHAN: A great many of the co-operatives in the United States get their managers at Cornell University. Is that not right, Mr. Nadeau?

MR. NADEAU: That is what we were told in the United States, that most of the managers came from Cornell.

MR. PARKER: It has a reputation of being a very strong advocate of the co-operative movement in all its branches. It teaches and advocates that philosophy on every occasion. That is merely a fact, so that we will be able to judge the weight that should be given to these statements.

MR. ELLIOTT: As a parallel situation it is also true that a great many of the men employed in our economics branch of the farm economics division of the Department of Agriculture have also had Cornell training.

MR. PARKER: Quite so. I am not saying that to detract from anybody, but so that we can have a due appreciation of their aptitude for these things.

MR. FRANCIS: I do not think these professors had these taxation matters in mind in giving this definition.

MR. PARKER: Oh, no; I did not suggest that.

MR. FRANCIS: If they are experts, then their book is probably of greater benefit than it would be otherwise.

MR. PARKER: Quite so.

MR. FRANCIS: Where for instance under provincial law, milk cannot be sold unless it is pasteurized, surely pasteurizing is incidental to the marketing of the product. I think we have evidence of that in Alberta.

Marketing, in short, means getting goods to the buyer. It will be found that the producer co-operatives that have been represented before this Commission have been engaged in marketing within the meaning of 4(p), whether they were marketing wool, livestock, dairy products, honey, or fish. Marketing means all the steps that the primary producer takes in getting his good into the hands of the buyer.

It is submitted that the word "market" in the context in which it appears should be given the meaning indicated by the economists mentioned.

It is further submitted that section 4(p) should, to quote from the Interpretation Act,

"receive such fair, large and liberal construction and interpretation as will best ensure the attainment of the object of the act,"

and that the interpretations suggested are reasonable and should be adopted. With respect to the present position of co-operatives, all of these, with the exception of those which have been properly assessed to date, should be regarded by the Commission as being exempt and it is respectfully submitted that it should be so reported.

With respect to the Excess Profits Act, the same conclusion should be reached in view of the provisions of section 7(a) of that act.

The reason I relied upon those definitions by those professors was because I thought they would be helpful; and I thought that by taking one from Queen's University it would

not be suggested that everyone at Queen's is in favour of co-operatives also.

MR. PARKER: Do you use the word "buyer" in the same sense that these authorities use the word "consumer"? Does it mean the same thing?

MR. FRANCIS: Just before leaving section 4(p) I should like to deal very briefly with one particular matter; that is the Prince Rupert Fishermen's Co-operative Association. That is the only case I wish to take, and I will deal with it very briefly. That is one specific case, and a specific recommendation was made to this Commission with regard to it and with regard to the Kyuquot Association, and to others like them.

I refer to page 13 of the last brief presented by Mr. Locke. I informed Mr. Locke I intended to raise this question, and he was good enough to send me a copy of the brief. I read from page 13, near the top of the page:

"While we respectfully submit to your Commission that your report should contain a recommendation that the Income War Tax Act and Excess Profits Tax Act should be enforced against these and all like organizations upon their operations up to the present time. . . .".

And so on. It may seem that I have taken quite a bit of time with section 4(p), but that is representative of requests that have been made to the Commission that this Commission recommend that the Prince Rupert Fishermen's Association and the Kyuquot Association be taxed up to date.

The Prince Rupert Fishermen's Association was organized in 1931, and I might mention the conditions under which it was organized in a moment. It was put into operation.

It complied with the provincial co-operative law of British Columbia. It passed by-laws in conformity with that law, and then as it began to operate and make savings, it complied -- and I think the evidence shows this -- with the provisions of section 13 of the British Columbia Act.

As Mr. Locke quite properly points out, the British Columbia Act does not place a limit on reserves, so that substantial reserves were set aside, a number of different reserves, as you will remember. Then the income tax authorities opened up correspondence with the Association and sought various information. That correspondence is rather lengthy, and it is all filed with the Commission. But it shows, and I think it can be summed up in this way, that eventually the income tax authorities were satisfied that they should not assess the Association. They did not assess it, and it has paid no tax and has gone on year by year in its development.

In one case you will remember that instead of paying back patronage dividends, to use that term for the moment, it applied them at, I think, a quarter of a cent a pound for fish on the share of the member. You will remember that Mr. Locke's argument is that this was simply a gift from the Association because, there being no clear obligation to pay, all this surplus became the property of the Association. Therefore it was the Association's; and if the Association took a quarter of a cent a pound and applied it on the shares of the members, that was a gift from the Association to the members.

The significant thing about the Prince Rupert Association, I think, is this. You will remember, and it is mentioned on page 2 of Mr. Locke's brief, that in handling the fish

produced by the salmon trollers, sixty to eighty per cent of the market value was paid to them at the time of delivery, so that you have a situation where the remaining twenty per cent to forty per cent in the hands of the Association is, or so it is charged by Mr. Locke, profit in the hands of the Association which should be taxed.

You see, this is the point which was discussed yesterday with Professor McDougall. There is that wide margin of twenty per cent to forty per cent. That all went into the reserve and was unallocated, apart from what I said about the shares. Now Mr. Locke or his clients has asked this Commission to go back and tax the Prince Rupert Association on everything that was not paid initially, which may have been sixty per cent or up to eighty per cent. Everything else, he says, is profit and therefore should be taxed as ordinary profit.

You see, the market price was not paid. What was paid was sixty per cent to eighty per cent of the market price. And, as I read his argument, it is that the rest of it goes to the Association and belongs to the Association.

He supports the argument by pointing out that the word "profit" is used not only in the by-laws but in the act, and by pointing out that it was not an agency, because the word "assets" was used in the balance sheet.

That is the claim which is being made to this Commission. I do not want to deal with individual cases, which would take too long, but I cannot leave that because, acting for this Association, this is a request that would clearly ruin the Prince Rupert Association. I think it is not going too far to say that. But there is a legal argument here which is most interesting and very able. I think I have sized it up properly; if I have not, I hope you will check me on that,

but that is as I understand it.

It may be that this legal argument is sound. No doubt there is a great deal that can be said for it, and perhaps technically it can be supported, but I should like to point out that British Columbia is the one province in Canada where the legislation is wholly inadequate. I think it is the one province where there is no limit on reserves. This is an association of fishermen who, under rather dire straits, set up this association and they tried to comply with the law. They have satisfied the Dominion Income Tax authorities for all these years. They have gone on, and I suggest that it would not be in the public interest to comply with the request made on behalf of fishing industry, a strong body representing \$20,000,000 in capital. I submit it would not be in the public interest to follow that recommendation.

There is a technical and legal argument, and on the other side of the picture there are these few facts which I should like to mention, and in the long cross-examination of Mr. Deane I do not think one of these facts was controverted or questioned.

In 1931 the price for red salmon dropped from twelve and fifteen cents a pound to four cents. The fish-packing service was inadequate. The fishing camps were poor and their food was poor. The fishing companies made special standards, because if they did not do so the fisherman would take his whole catch to the competing company. The Canadian fishing boats were of low power and had to fish close to the shore, while the Americans came up and fished where the fishing was better.

The evidence is that the fishermen's co-operative

changed all that. You will remember that in 1935 they increased the fishing camps. You will remember that they were not satisfied with what they were getting for ling cod liver, and decided to stop taking it in. That was at a time when the British ministry wanted this food for the vitamin it contained. The fishermen were getting only sixty cents a pound for it. They went into the processing of this liver, and instead of getting sixty cents, which the private company paid, in 1941 the co-operative paid \$3.85, or something like that. The Dominion government would not believe it when they put in the report; the matter was investigated, and this was found to be actually the case.

That was significant in this way. Not only did it give greater incomes to the fishermen. It also encouraged the fishermen to bother with the livers and to take them in, thereby providing a much needed commodity for the British Food Ministry.

There are a number of other points, of course. The evidence at page 5028 was that all this development increased the incomes of the fishermen. It served to be a check on prices, and other fishermen in the area benefited by the new standard that was set.

What I say in summing up is that this whole development, starting in 1931, proved to be in the public interest and that these fishermen, having now established their fishing camps, their fleet, and so on, it would not be in the public interest now to go back and tax them retroactively, even if technically they are not on sound ground. I do not want to take up too much time, but that is the point I should like to make.

MR. NADEAU: Before you leave this interpretation

question, I should like to know whether you give the same liberal interpretation to the word "purchase". I should like to know whether you consider manufacturing as incidental to purchasing, as you did in connection with marketing?

MR. FRANCIS: Frankly I do not think that point has ever been raised before the Commission, and I have not given it any thought. I will do so over the adjournment, if you wish, but frankly I have not given it any consideration, because I do not think it has ever been raised before the Commission and it has never been raised in my experience, so I should like to think about that. I will make a note of it.

MR. NADEAU: Because I understand it came out in the evidence that purchasing co-operatives were also manufacturing.

MR. FRANCIS: The subsidiaries are, at any rate.

MR. NADEAU: Either directly or indirectly.

MR. FRANCIS: Take the Davidson co-operative. That is a local, and it has a bakery, if you consider that manufacturing. I suppose it is. I think the British-Canadian also has a bakery. Then the federations or their subsidiaries are certainly manufacturing. You will remember that on that point the refinery was investigated, in 1936, I think; that is, the oil refinery at Regina, and the income tax authorities at that time went into the whole question of their taxability. You will recall, on the evidence given by Mr. McKay or Mr. Rankin, I think the evidence of Mr. McKay, that they had a ruling that the manufacturing plant came within section 4(p), or at least it was exempt from the income tax. Certainly that was a consumers' manufacturing plant, according to the evidence.

MR. NADEAU: I remember that.

MR. FRANCIS: There is that ruling, so perhaps that answers the question, because we have not a precedent. If you would like me to give further consideration to it I would be glad to do so.

MR. NADEAU: If you can I should be glad to have you do so.

MR. FRANCIS: Now I open up a new subject, "The present position of co-operatives apart from section 4(p)." I hope I have established that most of the co-operatives which I represent, and most of the cooperatives that are out of the non-member class come within section 4(p). The main point, then, is the question of patronage dividends for those others.

Many co-operatives have been unable to comply with the non-member provision of clause 4(p) but have returned to patrons large sums by way of patronage dividends. The practice as shown by the evidence has been to allow these dividends as deductions if paid or allocated to the members. In one case where no deduction had been allowed the sum of \$3865, which had been paid with respect to dividends in a period of three years, was refunded by the Dominion government (Clark - VII - 2499).

The deduction is in accordance with law and usage in Great Britain, United States and Canada.

New York Life Assurance Company vs Styles 14 A.C. 381
Lord MacNaghten and Lord Watson

Jones vs. S. W. Lancashire Coal Owners Association
1926 - 42 Times L.R. 401 Rowlatt, J.

United Co-operatives Inc. vs. Commissioner C.C.H.
Fed. Tax Reporter 1945 - Vol.4, p.9030 - sec. 7026.

(Reference XII - 4280)

In the last mentioned case the decision was that patronage dividends distributed are to be treated as rebates to which patrons are entitled by the by-laws and therefore are to that extent to be excluded from gross income subject to tax. The full text of this decision was filed as a supplement to the International Lumberman's Association's brief.

At this point Mr. Scarth, who represented the Manitoba Co-operatives, has been kind enough to furnish me with a copy of his written submission, and you will find there a number of authorities in addition to those I have mentioned. I simply mentioned the leading authorities. It seems to me that on this argument the Commission already has been furnished with plenty of authorities, and I do not intend to take up any more time.

MR. PARKER: Before my learned friend leaves that, it occurs to me that perhaps we should not drive a willing horse to death, and that this might be a good place for Mr. Francis to stop to-day and go on to-morrow. It is four o'clock now.

THE CHAIRMAN: We cannot finish to-day, and I think that is a point well taken.

MR. FRANCIS: Thank you for the suggestion. That will suit me very well.

THE CHAIRMAN: You can finish to-morrow, can you not?

MR. FRANCIS: I will do my best.

THE CHAIRMAN: We will not interrupt you quite so much to-morrow.

At 4 p.m. the Commission adjourned until Friday, July 27, at 10 a.m.

ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative positions of persons engaged in business directly competitive therewith, met in Ottawa on Friday, July 27, 1945, for the hearing of oral argument.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON	}	Commissioners
G. A. ELLIOTT		
J. M. NADEAU		
J. J. VAUGHAN		

Eugene T. Parker, K.C. Counsel

Major H. D. Woods	}	Associate Registrars
J. A. Chapdelaine		

Colonel G. W. Ross Executive Secretary

APPEARANCES:

W. B. Francis	Group of Co-operative Associations
R. H. Milliken, K.C.	Saskatchewan Co-operatives
M. M. Porter	Alberta Wheat Pool
G. H. Steer, K.C.	United Grain Growers
W. B. Scott, K.C.	Canadian Chamber of Commerce
Prof J. L. McDougall	Canadian Retail Federation

The Commission met at 10 a.m.

MR. FRANCIS: My lord, during the session yesterday Mr. Commissioner Nadeau asked a question regarding the word "purchase" as it appears in section 4(p), and I said I would try to give some consideration to that point. I believe the point was whether or not it would be open to argue that purchase would include manufacturing or whether it should not be given a restricted meaning. I think that was the point.

MR. NADEAU: Yes.

MR. FRANCIS: I said at that time that I had not given any consideration to the question inasmuch as the point had not arisen as far as I knew during the hearings of the Commission or in my own experience. It does raise a very interesting legal point and I must say that from the legal standpoint I have a great deal of difficulty in satisfying myself that the word would be wide enough to cover manufacturing. I can only suggest that those groups that were formed under 4(p), the so-called consumer co-operatives, had not what might be called the Rochdale concept and that in practice the word "purchase" has been thought of as meaning to acquire, and that these groups, whatever the law might have been, were formed for the purpose of acquiring for themselves supplies to fill their needs. And as the evidence shows, various by-laws and practices have been adopted from the Rochdale system. We find that in endeavouring to purchase supplies for themselves groups occasionally were denied the right to purchase them and therefore they took whatever other means they could to acquire those supplies. We have the case of the refinery in Regina. The evidence there was that at the prevailing prices the farmers could not produce wheat on the basis of what they paid and carry on unless they could get their gasoline for power farming at a reduced price. Therefore

they refined their own gasoline. That is about the only case I can recall that dealt with this point! That went before the income tax officials about 1938, as the evidence shows. So that from the legal standpoint I am endeavouring to show that the word purchase is wide enough to cover manufacturing, if we think of purchase as involving purchase and sale in the acquisition of property. I believe it was the Rochdale concept which the people who were doing the thing had in mind. Looking back 16 years they thought of it not as purchasing but as supplying themselves in order to obtain as best they could the things they needed. I am very glad that the point was raised because it does show another weakness in 4(p).

It is interesting also because it has been argued before the Commission many times that nothing but an agency comes within the terms of 4(p). The use of the word "purchase" does suggest that it did contemplate the sort of case where property was acquired by association through purchase.

MR. PARKER: While my learned friend is on this point will he give us his views as to whether the words "such members" in (b) do not have the effect of restricting the scope of (b) to the same area as (a)?

MR. FRANCIS: No doubt it is limited and that brings me back to the argument I made yesterday, that under the first part it is wide enough to cover groups of all kinds and therefore the limitation would not be important.

The argument on (b) must rest on my argument yesterday.

Dealing with patronage dividends, it is necessary to say very little, and I refer you to page 14 of the outline, paragraph 15:

15. The practical problem of taxing patronage dividends as income in the hands of the co-operatives has been admitted on behalf of many organizations and the inequity of such a tax has been stressed by co-operative witnesses.

In view of the useful discussion that took place the first day on that point, I do not wish to elaborate it. It is fresh in the minds of the Commissioners. I had intended to develop it, but that is not necessary.

15(a) It has been conceded by witnesses representing important private interests that patronage dividends actually paid should be deducted as trade expenses before arriving at taxable income. Mr. Macdonnell representing the Canadian Manufacturers Association proposed that patronage dividends be so treated (VII - 2321).

As a useful discussion of that point I refer you to a very clear statement made by Mr. Locke at Vancouver which will be found in Volume I, page 317 to about 323. You may recall it. I do not wish to read it, but it is a clear statement of the situation as regards patronage dividends. On this matter of patronage dividends, I suggest that in the case of a consumers' co-operative the price charged is more like a deposit than a real price. It is a conditional deposit and I would ask the Commission to think of it in that way. With regard to producers' co-operatives, it is simply an estimate. The price paid is not a price in the ordinary sense but an estimate varying from 50, 60, to 80 per cent all along the line, depending on the type of business. It is not purchase and sale in the ordinary way. The evidence shows that in deciding on these provisional prices the co-operatives have tried to interfere as little as possible with prevailing prices and that is particularly true of the consumers' side of the picture. There

has been little disruption. As someone has said, they tend to hold an umbrella over competitors by disturbing the price structure as little as possible. I understand that in England in certain cases there is quite a difference but in this country, according to the evidence and so far as consumers are concerned, the general practice has been for co-operatives to follow general price levels.

THE CHAIRMAN: That is true in England.

MR. FRANCIS: I know it was originally.

THE CHAIRMAN: It still is.

MR. FRANCIS: That is, prevailing prices are used as the standard.

THE CHAIRMAN: And sometimes higher.

MR. FRANCIS: That is an interesting feature because I think it gives point to our argument. In a co-operative it does not matter much what they pay because they get it back and some associations seem to have the policy of making savings in that way.

THE CHAIRMAN: It is not fair to say that it does not matter what you pay. The ordinary poor housewife has not a great deal of money to disburse in the first place. Her interest is not to pay a high price and get something back later.

MR. FRANCIS: Unless she and her fellow housewives decided as a matter of policy that they wanted to make savings in that way.

15 (b) It was agreed on behalf of the Saskatchewan Employers' Association that patronage dividends if paid within a year or a limited period should be exempt (IV - 1256).

15(c) La Chambre de Commerce de la Province of Quebec recommended that patronage dividends or discounts distributed to patrons, provided they be paid in ready money (or at least

within a reasonable time) be considered as an expense and Mr. Latour admitted that at present the patronage dividend is not a profit and consequently cannot be taxed (XVII - 5546). The recommendation as to patronage dividends applies to producer and consumer co-operatives (XVII - 5586).

15(d) Other witnesses expressly or impliedly admitted patronage dividends actually returned should not be regarded as income.

16. It is submitted that the present position of associations operated on a co-operative basis is that all patronage dividends paid or allocated by them should be regarded as deductions.

I can pass over Part II quickly. I have attempted to sum up succinctly the main features of the organization, business methods and operations of co-operatives and I thought that no useful purpose could be served by going over all the different organizations. I agree that some of them are not set up as carefully as they should be. Some depart perhaps from proper Rochdale principles, but I suggest that on the whole this brief summary does give the essential features of the co-operatives as shown by the evidence. That I hope will be of some use to the Commission. I do not wish to dwell upon it, but I wish to have it retained on the record.

MR. VAUGHAN: What you state here would permit of either patronage dividends or allocations extending over years. Is that intended?

MR. FRANCIS: What I intend to suggest is that on the completion of the transaction the allocation should be made and that at that time the allocation should be reported to the Income Tax Department so that it is treated as the income of the member. At the end of the transaction the allocation should be made, and then that should be reported

to the income tax authorities.

MR. VAUGHAN: That is dealing with it from the standpoint of the member, but from the standpoint of the co-operative do you suggest that the allocations could be made payable over a term of years, so much a year, as in the case of the revolving fund, or do you think that allocations as well as dividends should be payable within a short time after the end of the year?

MR. FRANCIS: As I pointed out yesterday, there is a difference of opinion on that point depending on the nature of the business. Some witnesses stated that a definite period should be set while other witnesses representing other businesses were of the opinion that that would not be safe. There is therefore a conflict and it depends on the type of business. I cannot answer that question except to refer you to the evidence.

MR. ELLIOTT: In your previous answer concerning the reporting of allocated surplus, you had in mind primarily producers' co-operatives rather than consumers.

MR. FRANCIS: I have given a good deal of consideration to the so-called pure consumers' co-operatives, and I think the truth of the matter is, when you review the whole situation, that we have not very many of them, because in the so-called consumer associations you have really supply associations and the dividend is relevant to income tax because it does reduce the cost of producing on the farm.

MR. ELLIOTT: I should say rather, the dividend on consumers' goods as compared with producers' goods.

MR. FRANCIS: If you put it that way, I would say that there is a distinction because in the case of consumer goods there would be no income tax payable anyway. But we have

to be practical and fair about it and the fact of the matter is that you have a mixture. In the co-operatives in Ontario and the West you may get a small percentage, 10 per cent, of consumer goods and 90 per cent of twine and so on, and it would be difficult to segregate these.

MR. ELLIOTT: I wanted to be clear just how far you were going.

MR. FRANCIS: I made my statement general because it would be only fair for co-operatives of the kind we know to report the allocation of all dividends. Theoretically the other argument is quite right.

Part II

Clause (b) - Terms of Reference

The second task assigned to the Commission under clause (b) of the Terms of Reference is to inquire into "the organization and business methods and operations of the said co-operatives, as well as any other matters relevant to the question of the application of income and profits tax measures thereto."

17. The organization of co-operatives is dealt with in the statutes and by-laws, copies of which have been filed. Although a general pattern is followed in the business methods and operations, as the evidence shows, there is some variation and it appears that greater uniformity may be desirable. Apart from brief comment it is proposed to defer consideration of these matters until claims made by other interests and the specific recommendations made to the Commission on behalf of the co-operatives are dealt with.

18. Implied in clause (b) of the Terms of Reference is the duty of finding what a co-operative is. We can best discover what a co-operative is by determining its objectives

and how these are achieved. It is submitted that on the evidence it has been established that the objective of a co-operative is the self-help of an individual through self-education, ownership, control, quality of service and product, resulting in an improved standard of living.

It may be useful to have a definition and what I suggest now is that, in order to find out what a co-operative is, which is one of the problems before the Commission, you have to look at the matter carefully. It is not simply a question of using a few words; it is a matter of concept.

C. Organization.

19. The preliminary step in the organization of a co-operative is to initiate a self-education program. There is evidence that this is perhaps the most important step. Next, ownership is achieved through the individual advances of the members, either by way of membership fees, share capital or loans. Control by the members is insured by the principle of one member one vote. With ownership and control in the hands of the members who use the co-operatives, the members in servicing themselves naturally provide quality service and insure high quality products. This submission is supported by evidence on the work of study groups, especially in Prince Edward Island and Nova Scotia.

20. Ownership is acquired by:

- (a) direct contributions;
- (b) through operation of the co-operative.

21. Original contributions are made by:

- (a) share capital
- (b) membership fees
- (c) loan units.

21(a) Share Capital. The use of share capital on which is paid a reasonable return is in accordance with Rochdale

principles.

(Hall & Watkins "Co-operation" p. 355) - "In a co-operative the share capital is not advanced primarily as an investment but as a contribution to a joint fund which will enable all the members collectively to provide the particular service for which the co-operatives are being formed. If the contributions of capital were in exact proportion to the use which the members would make of the co-operative, there would be no good reason why any interest on share capital should be paid. The payment of interest merely serves to adjust the rights of the members on an equitable basis."

I think that would be of use in laying the basis for what I have to say later.

21(b) Membership Fees. The trend appears to be to organize on a membership instead of a share capital basis. Co-operative statutes of Saskatchewan and Ontario give examples.

The trend emphasizes the importance of individual control and use rather than the investment feature and financial returns. In a membership co-operative the financing is done initially through loan units.

21(c) Loan Units. These do not differ from the loans obtained by a joint stock profit company, except that they are obtained from those who use the co-operative instead of banks or others.

22. Ownership of a co-operative is increased through its operation by:

1. Application of patronage returns on memberships or shares.
2. Deferred patronage returns.

3. Reserves.

By merely using a co-operative, the members gradually become owners of the facilities, although they only pay for the services approximately the same amount as they would have been required to pay to profit business.

D. Control.

23. The principle of "one member, one vote" is fundamental in a co-operative. The control of the local association by the members is personal and direct. Federations of co-operatives such as Saskatchewan Federated Co-operatives, or co-operatives serving members in a large area such as the Canadian Wool Growers, follow the same principle but as in any other democratic institution the control must be exercised through representatives usually called delegates. It is a common sense adaptation of the principle of "one member, one vote".

E. Other Matters Relevant.

24. Under clause (b) of the Terms of Reference "other matters relevant" are also inquired into. Many claims have been made on behalf of other interests which have been urged repeatedly with great persistency. Some of these are as follows and must therefore be dealt with.

MR. ELLIOTT: I would like to hear your argument on 21(c) in regard to loan units. I asked a question or two of witnesses and did not get a clear answer on that point, and I would like to hear you explain that statement if you care to.

MR. FRANCIS: What aspect of it?

MR. ELLIOTT: Speaking of loan units you say "these do not differ from the loans obtained by a joint stock profit company", except that they are obtained from those who use the co-operative instead of banks or others." I have in mind

fixity of interest rate, duration of loan, definite date of payment, and things of that kind.

MR. FRANCIS: I would be glad to discuss that.

MR. ELLIOTT: If you prefer to postpone it that will be all right.

MR. FRANCIS: Loan units were dealt with here in enumerating the points that arise in connection with organization. At this stage I was not thinking of loan units so much as of the question as to what they really involve. You are familiar with income bonds as they are used in financing railway companies and other public utilities. That is a term that is well known and I think it is fair to say that a loan unit is similar to or more like what business men refer to as income bonds. Wide use has been made of income bonds in financing and the loan unit differs in one respect from what might be called an ordinary loan because there is a fixed rate of interest on the ordinary loan. On the loan unit, in some cases it is fixed and in other cases it is payable only if the surplus arising from the operation of the business is such as to enable the association to pay interest. So that with regard to the first group they use the loan unit and the statement needs no qualification. With regard to the second group it probably does require a slight qualification.

Now I come to the charges or claims made against co-operatives. There are 87 charges or claims and I do not propose to deal with all of them in detail. I intend to discuss only two or three -- those that seem to be most important and those that have been urged with the greatest insistence and repeated from coast to coast. The first one that I would deal with is the claim that there is no material distinction between a joint stock profit company and a co-operative. That

is fundamental. If this commission does not see that there is a distinction then I shall have a great deal of difficulty with the rest of my argument. If there is no material distinction, if the co-operative possesses merely minor peculiarities, as Professor McDougall suggested, then I shall have a good deal of trouble. The point is one that cannot be established very easily. It is not a matter of taking a certain definition and placing another definition beside it. It is far more involved than that and I would like to spend a fair amount of time on the question. I use the word "profit" for the first time and it is important to know what we are talking about.

THE CHAIRMAN: In England they are not a bit afraid of the word profit.

MR. FRANCIS: They have it in their Act.

THE CHAIRMAN: They do not make any bones about it over there.

MR. FRANCIS: I was interested, in reading the Provident and Industrial Societies Act to find the word "profit" there, but it is important that I should tell you what I intend by the use of the word in this argument. It means a return on capital and I mean by profit companies, companies that are organized for the purpose of obtaining a return on capital. To anticipate the brief may I go forward for a moment to page 23 where the definition is given by Senator Farris: "Its sole purpose is to earn dividends for distribution among its shareholders." That is the definition that he gives. I mention the word profit at this stage because it has another meaning; it includes certain benefits. There are many benefits that do not fall within the meaning of profit as an economist or a business man would define the word. There are many benefits which some people imply when they use

the word "profit". In a co-operative there are many such benefits and I have to distinguish those general benefits from the narrow meaning which the business man attaches to the word "profit" and the meaning that Senator Farris ascribes to it.

MR. ELLIOTT: When you speak of a return on capital do you mean in proportion to or imputable to the use of?

MR. FRANCIS: I will state later on what I mean by that:

"Claim that there is no material distinction
between a joint stock profit company and a
Co-operative.

25. Other interests have argued that there is no material difference between a joint stock profit company and a co-operative. The Income Tax Payers Association has urged thus in paragraph 91 and 98 of their brief. (Adamson - VI - 1779-1784).

25(a) With respect to a consumer's co-operative the issue is clearly joined. The Canadian Retail Federation which claims to be the most representative retail organization in the Dominion of Canada, representing an annual business of \$3,440,700.00, gives the following as its considered opinion:

'The only difference between consumer co-operatives and other retail enterprises lies in the description given to the monies available for distribution -- co-operatives call them savings and distribute them as patronage dividends and other retails call them profits.'

(Carson - VII - 2330-and 2346)

Even under careful questioning by counsel and the chairman, the witness Hougham was reluctant to recede from that position. This statement is the premise on which the main argument, on behalf of many interests appearing before this

Commission, has been based. The co-operatives deny this premise and submit that the conclusions based on this premise are fallacious.

25(b) The differences are far-reaching and fundamental. It is not sufficient to list side by side superficial characteristics and say these are the differences and these are the similarities. On the basis of the evidence it is necessary to examine a co-operative. From the evidence which was reviewed there should no longer be any doubt that the differences are fundamental. If that can be established to the satisfaction of the Commission a great many of the counter-arguments lose their force. When we consider why a co-operative is organized, how it is organized, how it functions and what happens when it begins to function, we have the answer. and we have the denial of the claim put forward so often and so emphatically by other interests.

25(c) Those who form a profit company seek a suitable investment. Those who form a co-operative seek to meet an urgent need, often a desperate one, one they cannot meet alone as individuals. The evidence is clear on this.

In North Rustico, Prince Edward Island, 75 per cent of the people were on relief when they began to adopt the co-operative technique with startling results. (Croteau - XI -4008)

The fishermen's co-operatives in nearly all cases came into existence under conditions of extreme hardship and adversity. (MacKichan - XII - 4404). The Department of Fisheries makes grants annually to the University of British Columbia and St. Francis Xavier for promotion of co-operative educational work among fishermen of the Atlantic and Pacific coasts. (MacKichan - XII - 4398).

In some cases local private services were discontinued and were not being replaced. This happened in Oxford county in

Ontario. (Nephew - VII - 2438). It happened in the Kandahar district in Saskatchewan (Jonsson - V - 1450) where the farmers faced the prospect of being without a retail store and 97% of them contributed \$4000 and established their own. It happened in Drumheller in 1944 when a mine supply Saskatchewan co-operatives with urgently needed coal went into liquidation. The Co-Operative Wholesale took over the mine not as a desirable investment but in an effort to supply the farmers who owned it with fuel. (McKay - IV - 1364 and 1960) It happened on Graham Island when the private cannery was closed throwing the families of the district on relief. (Mrs, Simpson - I - 68). It happened in Nova Scotia.

"Co-operative enterprises among fishermen in the Maritimes arose and developed out of dire necessity with the curtailment of markets and the deflation of prices. After the close of the First World War conditions in the Maritimes fisheries deteriorated to a point where suffering and deprivation was widespread in many of our fishing villages. Fish buyers and processors finding their business no longer yielding the high prices of war time began to curtail their marketing operations, and, in some cases to close their plants entirely. Whole fishing communities were left without an established marketing agency of any kind except perchance the local merchant who at times took fish in barter for groceries and supplies at his own price." (MacKichan - XII - 4390)

This evidence was amply supported by the findings of a Royal Commission appointed to investigate the industry. The desperate need out of which co-operatives arose is set forth by a witness (MacKichan - XII - 4391-2) as follows:

The Commission recommended the establishment of co-operative organizations of fishermen under the guidance

of an organizer appointed and paid by the federal government. The Commission further stated:

"We do not conceive such an undertaking to be beyond the scope of departmental responsibility or government aid."

It was a case of self-help encouraged by the government of all the people. Five years later the Royal Commission on Economic Inquiry found that the co-operatives had great possibilities and were worthy of encouragement. The Commission reported:

"On the side of both supplying and of marketing (the co-operative method) it represents an improvement upon the old state of affairs and has thus opened up new avenues of trade to the lobster fishermen and enabled them to strengthen their position in relation to the specialized dealers in the larger towns." (MacKichan - XII - 4395).

That means more industry, more production, more employment, more transportation, more of everything, and eventually more revenue to the exchequer of Canada when you have that situation.

In other cases the need was also urgent, to establish orderly marketing of live stock in New Brunswick (McEwen - XI - 4110-4114) or honey in Ontario (Inkster - VII - 2487), or, provide decent housing in Reserve Mines (Laben - XII - 4372) or transportation at a reasonable price for the smeltermen of Trail in British Columbia (Gordon I - 328). When on the prairies wheat was 40 cents per bushel or less the necessity to bring down costs was impelling if farmers were to remain in production. That is why thousands of farmers were forced to distribute and refine fuel for their tractors resulting in a saving of 16 per cent over the worst years of the depression (Rankin - V - 149).

We had that situation in Prince Rupert, where ling cod liver could not be produced at 60 cents a pound and therefore there was no production while the price remained at that level. But when the price was \$3.85 they could profitably produce ling cod liver for the necessities of Great Britain. On the Prairies, when people were thinking of moving north in great numbers in the midst of the depression, they could do one of two things. They could pull out, leaving their farms and the investments of a lifetime, or they could undertake to bring down the cost of one of the most essential things needed in production -- gasoline -- and that is what they did.

Due to unfair prices and careless handling of live stock Lloydminster farmers, who had learned something of co-operation in the old land, adopted the method in their district. (Davidson - V - 1403).

When recently the farmers of the ranch country had a pressing problem on their hands of disposing of surplus horses, the co-operative technique proved to offer the only solution. (Thomson - V - 1515).

There have been statements in the press, and there has been a lot of misunderstanding about that development. Some people have the idea that it is a government project. The truth of the matter is that a group of ranchers and farmers had a desperate situation on their hands. One hundred thousand horses were eating their crops and their grass and they did not know what to do with those horses, so they made a contract for 10,000 tons of horse meat with the Belgian Government. They are now remodelling two plants, one in Swift Current and one in Edmonton, and they have a government guarantee of \$50,000. I was at a meeting in Swift Current where I met

these ranchers, and this is the problem which these people were trying to solve. Most of these people, independent ranchers and farmers, had had no previous experience with co-operatives at all, but they adopted the co-operative device to solve their problem.

Many more examples could be given but it is well established that in this and other countries people have been driven to form co-operatives from necessity, not choice. That is one distinguishing feature and here profit business is not on common ground. All the co-operatives arise from the needs of the people no matter how large they may have become. A so-called co-operative is just a large group of needy people doing a lot of things for themselves.

25(d) The question of how a co-operative is formed has already received a great deal of attention. The fact that it is controlled by the people who are going to use it, places it in a class quite apart from profit business. It is established to serve low and moderate income groups. The importance of the control being placed in the hands of the users deserves emphasis. The evidence discloses unfortunate examples of what happens when the rule of one member one vote is not followed. That is a distinguishing feature of great importance. In Prince Edward Island, near Morell, the fishermen formed their own association. They neglected this feature. The association was successful but control passed to the manager and the members ceased to benefit as they would from a co-operative properly organized. (O'Brien - XI - 4070). Many of the earlier attempts failed because there was no suitable legislation which authorized control on the basis of membership.

Another important feature of the people controlling the co-operative is this, that they can decide on the quality

of the goods. In this day that may not be so important, but reading the history of the Rochdale pioneers you will remember that it was not only the price that was involved but adulteration of goods -- the question of the quality of the things they bought. That was one of the main reasons why these people formed co-operatives. You will find that in the records of Rochdale. It was under their control, and if they were getting sand in their sugar they could do something about it. If the flour was not pure, they could remedy that situation. I would like to stress that point. I am not sure that they were always successful, but that was what they set out to do.

MR. VAUGHAN: Are there not laws that govern that sort of thing -- pure food laws? No one can put sand in sugar.

MR. FRANCIS: Yes. I wanted to emphasize that, because I realize that it is quite difficult to maintain supervision. A great deal has been done by pure food laws; there is no doubt about that. But one of the interesting things about the refinery in Regina was that, for the type of tractor they were using at that time, they had the greatest difficulty in getting on the market the kind of fuel that was suited to their operations. One of the reasons they refined their own oil was their desire to produce the blend, the type of commodity that best suited their needs. The gasoline that was sold on the market was good; if anything, it was perhaps too good. That was the trouble. The price was too high owing to the octane content. The point is, at any rate, that they could adapt the product to their particular needs by having control over it.

MR. VAUGHAN: Does that mean that the refineries were unable to suit their requirements? Usually a company tries to meet the demands of its customers.

MR. FRANCIS: Generally speaking they do, if it is profit-

MR. VAUGHAN: Do you mean that in this case it was not profitable for them to do it?

MR. FRANCIS: The point I am making, which would seem to answer that question, Mr. Vaughan, is that over a period of years they saved 16 per cent on that gasoline. That is the record.

MR. VAUGHAN: You suggest that the gasoline which these people could obtain in the market was not suitable. Perhaps it could have been sold more cheaply if it had been of the same quality.

MR. ARNASON: Is it possible that the reason why they went into the production of that particular type of gasoline was that they wanted a product that was suited to that particular area rather than a product that was adapted to the country at large?

MR. FRANCIS: I believe that is the history of it.

In Nova Scotia control of a farmers' creamery owned by farmers and established for their use, was lost to an employee who gradually acquired a chain of creameries, more than one of which had been organized by farmers for their own use. (MacLellan - XII - 4550).

The Royal Commission on Price Spreads in its report, to which reference has frequently been made, fully recognized the importance of control resting in the hands of consumers. Control goes to the root of the whole matter in the co-operative argument.

The tendency to place more emphasis on control is shown by the trend to establish co-operatives on a membership rather than a share capital basis. (Savage - VII - 2393 and Saskatchewan Act).

According to the evidence of several witnesses, and

stated specifically in the brief of the Independent Dairies of British Columbia, the purpose of the ordinary profit corporation is as follows: "Its sole purpose is to earn dividends for distribution among its shareholders."

(Farris - I - 225).

Where could you get a better authority on what the sole purpose of a profit corporation is?

MR. VAUGHAN: Who is the author of that statement?

MR. FRANCIS: Senator Farris.

MR. VAUGHAN: I think there are many companies that take into consideration more than the question of profit. One important consideration is the condition of employees. I believe they have great consideration for their employees, and profit is not the sole purpose of every company.

MR. FRANCIS: I do not think there is any doubt in the world that there are many companies that do show consideration for their employees; but there is just this one point I would like to make. It depends very largely on the individuals who are in charge. There are certain companies whose names are household words in Canada, and we know from reading the biographies of their founders that these men had a great interest in the welfare of their employees. But the point is that in profit business you have no guarantee that the same consideration will always characterize all companies. As I say, it depends on the individual. In the co-operative, on the other hand, there is such a guarantee because control is always in the hands of the people concerned.

THE CHAIRMAN: I should not like to adopt that assertion as the device on my banner, Mr. Francis. There are some Canadian companies which are not entirely devoted to profits. Would you say that one of our great railway

companies is entirely devoted to profits?

MR. FRANCIS: Certainly not, my lord. I am, however, taking the admission made on behalf of a very important group of private profit businesses by a very eminent counsel. Surely, in arguing my case, I can make use of that admission?

THE CHAIRMAN: Yes, of course, You can use it as argument.

MR. FRANCIS: I am not saying it is the sole purpose. I am pointing out that Senator Farris says it is the sole purpose, and he should know better than I do because he has had more to do with it than I.

MR. PARKER: Don't you believe that proposition?

MR. FRANCIS: ^{With great deference to} /My learned friend that is not a fair way to put it. I have some familiarity with co-operatives. On the other hand, Senator Farris has had a good deal of experience with profit companies, and he appeared before the Commission to give the benefit of his experience, and that is what he tells you.

MR. PARKER: We had his opinion. Now we should like to have yours.

MR. FRANCIS: I am doing my best.

MR. VAUGHAN: It may be different in British Columbia.

THE CHAIRMAN: You would not recommend the inclusion of that sentence in our report?

MR. FRANCIS: No, my lord; nor would I recommend setting up the other as a standard for co-operatives. I would stress the next paragraph.

If a group wish to use the corporate device to make profits at the expense of others, then all of those profits are income, and since it happens that by using the corporate device that income tax is assessed in a certain way, part of the tax comes from the profit makers through the corporation owned and controlled by the profit makers, and the remainder

from the profit makers personally. It should be kept in mind that both portions of the tax, together with all that is left over in the hands of the profit makers comes to a substantial degree if not entirely from customers who are not the profit makers.

MR. VAUGHAN: By "profit makers", what do you mean?

MR. FRANCIS: That is why I defined profit a moment ago. I will go beyond Senator Farris and say: Those who organize companies for the purpose of obtaining a return on their capital. That is what I mean by profit makers.

These are two ways of collecting the total tax rather than a system of double taxation since it is the customer who provides the profit to be taxed whether or not it be the tax paid by the corporation or by the individual shareholder of the corporation.

Persons who make a profit or income sufficient to pay a profit to other profit makers or persons who wish to give a profit to some one may do so, but primarily producers and low income groups who cannot afford to do this and any others who may wish to help themselves have formed themselves into non-profit service co-operative associations. This is one of the needs which helps to encourage the formation of co-operative associations and fine distinctions with respect to corporate entities seem quite irrelevant.

This is the answer to those who talk about taking over the universe under some co-operative scheme. It is only those who have a need and wish to help themselves, those who cannot afford to pay a profit, who are found in this group. People can talk about the great revolution and so on if they like, but let us look at the hard facts that were presented to the Commission. Professor McDougall says that

you should not take one group of people and set them aside and declare that they are entitled to certain privileges. But the fact is that that group of people are there because they needed to be there. That is the only reason they are there,

Further, to say that this trend has started or even been accelerated out of proportion to increases in profit-making business because of the recognition by the income tax authority of the non-profit feature, does not seem to have any general basis in fact because co-operatives were forming and in existence in Canada and elsewhere for many years before corporation income tax or even personal income tax as it is known to-day was in effect. It is also true that in commodity lines, where co-operatives have been in operation since 1900, they have not yet exceeded 50 per cent of the total Canadian business, and in most cases are far below this proportion of total business although in certain local areas this may not be true. In other words, co-operative enterprise is not a practice developed as a result of tax considerations, but rather a practice of non-profit mutual self-help to fill a need.

A good deal was said in British Columbia about the wholesale transformation of private to co-operative business. The evidence does not support that claim, and that claim went across Canada and received a great deal of publicity, and it has done a tremendous amount of damage.

25(a) A Co-operative in Operation. A co-operative aims to do business at cost, a joint stock company for a profit. Sometimes it is not successful, sometimes it makes a little profit; but it does not set out to do that. It sets out to operate without making profits, whereas the profit business sets out to do business by making profit, though sometimes it does business without making profit. There you have the aim on the one hand and the achievement on the

other, or the partial achievement.

In making comparisons in Toronto a witness admitted that a profit business might have a mark up of 56%, or even higher, although in some cases it would be much lower. The mark up of the co-operative was 17% and the witness admitted that co-operatives are fairly successful in achieving their purpose of operating at cost (Middleton - VII - 2355). To operate at cost from day to day would jeopardize the co-operative as the evidence shows (Savage - VII - 2405) so the result is achieved by making an overcharge in the case of a consumer's co-operative, or an underpayment in the producer co-operatives and adjustments are made later in various ways. We therefore have a further fundamental distinction between doing business at cost and at a profit. It is not a mere matter of words but it is a declared intention plus the most practical method which can be devised of carrying out that intention.

25(f) Perhaps the most striking characteristic of a co-operative which distinguishes it from any joint stock profit company is demonstrated by the way it functions in a community or region. An examination of two or three cases should establish beyond doubt that the two types are fundamentally different. The picture is not so clear in the districts where the development is recent. But in the town and district of Davidson, in central Saskatchewan, it is possible to see how this social and economic organism has functioned over a period of 30 years,

Some of you have had the advantage of seeing how these organisms have developed over a longer period and you will be able to test the validity of the argument I am about to make from your own experience, which I am not able to do from

recent observations; but if this is sound I would like to have it given effect, and if it is not sound you will know it.

The most striking feature is not so much the dollars and cents saved but the way in which from year to year it has been adapted to meet the needs of the people. It has been an instrument under the control of the people, standing by to meet any need or emergency that might arise. As it grew and developed it became more and more like a public or municipal institution. A community institution operating in that manner affords the best argument that a co-operative and a profit business are not essentially the same. It convinced a merchant with long experience who did business in the next town. He saw the advantages of the co-operative method, including the fact that a co-operative does not have to spend money to coax business; the business is already there. (Bagnall - V - 1512)

Starting in 1914 with wagon scales and an office a group of farmers began to distribute coal, lumber and building materials on a co-operative basis. Year by year they added additional services -- distribution of gasoline and oil, farm implements, groceries and provisions, meats, installation of a cold storage plant, hardware, plumbing, the establishment of a tin shop on a service basis with no intention of the revenue meeting the expense, drygoods, clothing, home furnishings, a bakery for the use of the community, stabling accommodation for the members' children, emergency benefit for bereaved families, the establishment of an egg candling station, the distribution of pasteurized milk on a non-profit basis for the entire community.

You do not find that in a profit company. Many of these features are unusual in the profit company; yet these are according to Professor McDougall, merely minor peculiarities.

As the witness stated,-

"For 30 years the co-operatives have been experimenting, venturing, exploring and locating paths that other co-operatives have followed seeking always methods by which to increase its service to its members. It has been and will continue to be a community undertaking." (Wilson - IV - 1417 and 1418).

This community nature is shown by the provision in its by-laws which provides for any surplus being used for scholarships in the event of the association ever being wound up. According to the testimony, the co-operative has succeeded in eliminating all distinction between owner and customers. The intention is that there is no one to make a profit for and no one to make a profit from and that the sole purpose of the co-operative is to give service (Wilson - IV - 1422)

The officers of the Davidson co-operative regard it as a piece of machinery for reconciling the respective interests of the members. They think of the members as partners in a community undertaking, which is described in this way -- the co-operative is engaged in distributing equitably amongamong members the partnership goods, which, as agent for the partners, it has acquired for their use, and then having done with the distribution adjusting the money differences that result. It is contended that only the closest knowledge of the working of a coöperative makes it possible to perceive that the co-operative is nothing but a greatly expanded, greatly modified ledger account for settling differences among partners (Wilson - IV - 1425).

I put that forward as their idea of what they are doing; that is after thirty years' experience. A great many of the

co-operatives in that province, of which there are hundreds, are fairly new. They commenced to operate much in the same way as this Association began to operate, but their history is short and the pattern is not so clear.

Again, those with long experience in developing a co-operative contend that income taxes assessed against a co-operative amount to a sales tax on the patron and fall harshly on the large consumer with a family is not equitable. (Wilson - IV - 1432).

The position which the co-operative holds among business men is shown by the appreciation of the town council, representing more than 1000 people, that they acknowledge with appreciation the service that the co-operative has rendered in distributing milk without profit.

The co-operative at Davidson is almost like a municipal government, of a functional nature, except that it is non-political and voluntary -- you come and go as you like. It must hold the loyalty of its members. It is a peculiar type of organism that must be looked at through magnifying glasses if you are to see clearly exactly what it is.

MR. PARKER: I suppose the members of the town council are also members of the co-operative and are patting themselves on the back.

MR. FRANCIS: My learned friend says they are patting themselves on the back. I do not think I need make any comment on that.

MR. PARKER: I was merely wondering if they were the same group of individuals.

MR. FRANCIS: I do know that in the town of Davidson there are other merchants, some of whom are on the town council; and the fact that there is a co-operative there,

which has improved the condition of the people and has resulted in the prosperity of the merchants of that town, speaks for itself. When the problem of distribution could not be solved where did the people turn? They turned to the co-operative, who had had thirty years' experience in providing services, and they said, "You see if you can't solve it." And they did. I don't think they are patting themselves on the back at all. They are simply recognizing what other town councils will recognize some day -- that a co-operative in a community is a great institution. Other places have not had the same chance to judge; Davidson has an experience of thirty years behind it. They are not patting themselves on the back at all. That is my submission.

MR. PARKER: I am sorry to have interrupted you.

MR. FRANCIS: It will be seen from this review that a co-operative has within it the seeds of growth, but there is nothing to indicate that the merchants in the town suffered.

The evidence shows that before the co-operative started one merchant had \$20,000 on his books and was in desperate straits, and the co-operative took over nearly everything and he was better off after the co-operative had been operating than he had been before. That was the evidence of Mr. MacDonald.

25(g) A Co-operative, such as Davidson, brings about community integration but by the very nature of its organism it brings about "vertical integration", as one Quebec witness referred to it.

What I am trying to do is to show what the co-operative is, and this again marks a distinction, because the profit company does not have vertical integration in this sense.

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Davidson was one of the original 29 associations which banded together in 1928 to serve their collective needs:

"Individual members of an association were limited in what they could undertake. They could distribute coal but could not buy it from the mine and could not mine it. Collectively with other associations they could do both. Locally they could not mill flour for themselves -- combined through the Federation they could finance such an operation. Individually they could distribute petroleum products but only collectively could they refine such products."

(McKay - IV - 1279)

That was in the Regina plains in the bottom of the depression. One small group could not establish a refinery for services badly needed, but a number of groups scattered over the plains could do so, and they saved themselves 16 per cent over a term of years.

Mr. McKay told the Commission how the hard-pressed people of communities in the Province of Saskatchewan had banded together under the stress of necessity. A co-operative expands in a manner quite unknown to a profit company. It is a social organism arising out of peoples' needs that evolves in various ways to meet those needs in the best way that the collective intelligence of the members can conceive. We often think of a profit company as being promoted. A genuine co-operative is never promoted notwithstanding the evidence heard in British Columbia. In Saskatchewan, according to the evidence, "the urge for co-operation is irrespective of the government and that urge will keep on manifesting itself irrespective of the government" There has been an attempt to discourage undue expansion (McKay - IV - 1375 and 1377).

MR. VAUGHAN: You state that co-operatives are not promoted. There are large sums set aside for educational purposes. Is not that for promotion of co-operatives?

MR. FRANCIS: My reference is to the original establishment of the co-operative. The second point which you now raise has to do with the practical expansion of services and it is quite true that a fund is set aside for the education of members, so that they can the better fit themselves for self-service.

MR. VAUGHAN: But they go further than that. We have seen circulars promoting the co-operative idea and inviting members to join. Is not that promotion of the co-operative system?

MR. FRANCIS: If in a community you have a group of a hundred people who have, by their experience, discovered for themselves that by banding together and using a certain technique they can make a success of serving themselves, deriving certain benefits thereby, then others will say, "If a hundred people can do this, certainly two hundred or three hundred or more can do the same and reduce overhead, being in many ways more efficient." And the fact is that in one case they had saved 16 per cent on gasoline while in another instance they have raised the price of ling cod from 60 cents to \$3.85.

MR. VAUGHAN: Isn't that promotion?

MR. FRANCIS: Call it whatever you like. They call it education. In the case of the profit company you have promoters going around the country selling shares. They sell shares in various companies -- oil companies, milk farms and so on. You do not get that type of thing in the co-operative. That is what I mean.

MR. VAUGHAN: I do not think the statement is correct, that a genuine co-operative is never promoted. It seems to me that co-operatives are doing promotional work. They have

educational departments for the purpose of promoting co-operatives.

MR. FRANCIS: The formation of a co-operative is not the work of a promoter in the ordinary sense.

THE CHAIRMAN: In England they do promote. When they think that a community needs a co-operative society they promote it.

25(i) The co-operative differs from the profit company in the preliminary steps taken to establish it. The organization is preceded by much consideration and study by those who wish to make use of it.

Desjardins began to study credit unions in 1885 and did not start the first one until 1900. In other words, he devoted fifteen years to preparation, and to the study of a device which, as we have seen, has worked remarkably well.

Sometimes the venture is studied for months and sometimes years. (O'Brien - XI - 4068). (Father Forest - XII - 4435). In provinces where suitable legislation is in force and adequate supervision is provided, careful consideration is given before a charter is issued. In Saskatchewan a government department or Branch has for several years required preliminary study and information before the incorporation of a co-operative. This gives assurance that there is a need for the co-operative that is proposed. (Turner - IV - 1110).

Other examples of how a co-operative grows in bringing about one improvement after another came from Morell in the Province of Prince Edward Island, (O'Brien - XI - 4071) -- from Baddeck in Cape Breton Island (MacDonald - XII - 4464), and from Masset in British Columbia (Mrs. Simpson - I - 74.)

Much of the study and preparation for the recent more

rapid development took place when the consuming power of the people was very small and only within recent years have they been able to gather small resources sufficient to establish their own facilities.

In Saskatchewan and other provinces a great deal was said about the tremendous expansion that took place all of a sudden. What really happened was that during the depression years, through study clubs and the distribution of literature, and as a result of doing certain things in a small way, they learned the advantages of this method, and as soon as they got resources together they carried out, as expeditiously as possible, the thing they determined upon.

25(j) Notwithstanding submissions that co-operatives are developing at an alarming rate (Thompson - IV - 1193) the fact is that the development has been slow and painful. In Saskatchewan of 1415 co-operatives incorporated in 30 years under the Co-Operative Association Act, 605 have ceased to exist. (Turner - IV - 1118).

One of the Commissioners put the expansion in proper perspective by the following comment:

"In trying to get a rough idea of trends it is well to compare one peak with the next. In the figures of total sales you show that in 1920 they amounted to \$7,000,000 odd and in the next peak 1942, which probably is not the highest, the figure is \$11,000,000 odd. Taking that as a rough indication of the trend you have an increase of a little over 50% in 22 years." (IV - 1194)

I suggest that the increase in co-operative expansion, comparing one year with another, is not so important. What is important is the relative increase. What has been the increase in private profit business? Statistics on that point would be very interesting.

25(k) It is very difficult to bring to the Commission a full realization of the meetings, consultations, planning and trouble involved in starting co-operatives and keeping them going. Generally it will be found in this and other countries, if people can afford to supply their needs without bothering with co-operatives, they will not bother with them. People throughout Canada, who are in the class that need co-operatives, realize that ownership means control of their own business and are gaining that control to be prepared for the difficult days which lie ahead. As for co-operatives developing into big business, this has been due to circumstances and distressed conditions. (Rankin - V- 1486).

You will recall the evidence of Mr. MacKay, "We didn't want to do this; we were forced into it." That was the tenor of his testimony. But they learned that this technique would work in supplying one need and so they applied it to another, and so on. That is the way the co-ooeratives grow -- in an orderly fashion, and as people are able to use them.

25(e) The wide distribution of surpluses is another distinguishing feature of co-operatives. The following are merely examples. In 10 years, 6 of which were in the depression, Lloydminster Co-operative returned to members and patrons \$96,219. (Davidson - IV - 1406).

Since 1931 net savings to Sherwood members (most of it during depression years) was \$445,227 (Rankin - V - 1485) and of this \$215,000 was paid out in cash. Sherwood was the local co-operative that was organized to keep the members in the business of farming (Bickerton - V - 1595).

The British Canadian Co-Operative in a period of six and a half years during the worst years of the depression, returned to members \$539,964 in dividends (MacDonald - XII - 4356).

While the association has been in operation patronage dividends have amounted to more than three million dollars. The evidence shows the economic advantage which has accrued to the people in many districts through the distribution of patronage dividends. This distinguishes a co-operative from a profit company. Further the ordinary profit company does not tend to keep the customers or patrons off relief and keep many of them in the income tax paying class, but rather may tend to require the state to take through taxation some of their profits and give them back to the customers or patrons in the form of relief or bonuses of some type.

25(m) Summarizing the foregoing, it is submitted that the difference between the joint stock profit company and a co-operative is fundamental. The motive prompting the organization and operation of a joint stock company is the making of a profit or gain, within the meaning of Section 5 of the Income War Tax Act. If it achieves its purpose it makes such a profit. The motive prompting the organization and operation of a co-operative is to provide a service without profit, and if it achieves its purpose the members have provided that service without making any profit whatsoever. Especially from an income tax point of view the distinction is fundamental.

One type is designed for profit to its shareholders. The other for use by its members.

All the other distinctions are the result of, or ancillary to this fundamental distinction.

A vital distinction is that the control of a co-operative rests equally with those who use its services -- such is not the case in a joint stock profit company.

A distinction far reaching in its effect is that membership in a co-operative is open without restriction to

all persons who can receive benefits from it -- such is not the case with a joint stock profit company.

A most pertinent distinction relative to income tax is that a co-operative, after providing for necessary expenses and reserves, returns its savings or earnings to those who use its services, in proportion to services used -- such is not the case in a joint stock profit company.

A distinction which emphasizes the motive of use instead of profit is the fact that where suitable legislation exists a co-operative is always able, through re-purchase and control of transfers, to keep its shares or memberships in the hands of those who use its services -- such is not the case in a joint stock profit company.

A distinction which also emphasizes the motive of use instead of profit is the fact that members of a co-operative are encouraged and required to become educated in the increased use of their association, by itself, and in co-operation with other co-operatives with a view to increasing benefits.

25(n). From the foregoing distinctions, which are amply supported by the evidence, it is perfectly clear that the differences are not only material but fundamental. If no distinction, why has every province in Canada passed special legislation, and why have repeated requests been made for special Dominion legislation dealing with co-operatives?

25(o) Whether or not an enterprise is carried on by a corporate entity is not the determining factor in the matter of income taxation. For example: an individual may operate with or without profit. A partnership may operate with or without profit. A corporate entity may operate with or without profit.

Many charitable, religious and social bodies are incor-

porated. Clubs are incorporated. Incidentally they may furnish certain supplies such as cigarettes and tobacco, yet they do not make a profit within the meaning of section 3.

It is admitted that there are benefits derived through the use of the corporate method. Whether the motive is profit or use, the corporate method is beneficial, but in the first case it is used as part of the machinery necessary for making a profit, but in the second case it is used as part of the machinery necessary for adjusting the financial affairs of the enterprise so that no profit is made.

The foregoing is supported by good authority. According to Bakken and Schaars in their book entitled "Economics of Co-operative Marketing", page 14: -- these scholars are not from Cornell or Wisconsin --

"The differences, however, between a co-operative corporation and a private corporation are much more striking than the similarities. The most important difference lies in the aims. A capitalist invests capital with the primary hope of profit for himself; a co-operative member uses capital as a means to provide marketing services at cost. In the former, the basis of organization is money; in the latter, it is the individual or the user of capital. In the former, operations are designed primarily to earn profits and secondarily to provide only those goods and services which may bring profits. The co-operative is also interested in savings or gains, but these are secondary to the performance of efficient services."

MR. VAUGHAN: Is that according to the evidence we got from the Maritimes? The primary motive was economic gain, not service. In the Maritimes, in many cases, it was stated that motive No. 1 was economic gain, and No. 2 was service.

MR. FRANCIS: I know a great many people think the Maritimes are different from the rest of Canada.

MR. PARKER: Not only different but superior.

MR. FRANCIS: I remember one place in the evidence where a witness stated that economic gain came first because conditions were so desperate that they had to pay attention primarily to that aspect. That seems to be what they had in mind.

MR. VAUGHAN: Is not that actually the position everywhere with co-operatives?

MR. FRANCIS: I agree that sometimes they may be driven to it.

MR. VAUGHAN: The savings or earnings that result from doing business at cost are as a matter of fact gains, are they not, the same as in any other company? The saving in a co-operative corresponds to the gain in a company; and in returning that saving or gain, naturally the business is done at a profit.

MR. FRANCIS: Here is customer A. He requires a suit of clothes and he goes to one store where a suit costs \$50. But he finds, through an advertisement or in some other way, that there is another store that sells the same suit for \$45. He goes to that other store and buys it for \$45. He does not make a profit of \$5, but he has saved himself that sum.

MR. VAUGHAN: Yes, but that is individual action. A person by individual action of that kind can save money. But when people incorporate for the purpose of saving they operate in a big way. They buy cheaper and can sell cheaper, just as any company can. By means of incorporation they can handle large quantities and sell cheaper. There is a difference between individual action such as you have mentioned and corporate activities.

MR. FRANCIS: The principle is the same. If one person can make a saving by going to another store and paying \$45 instead of \$50 for the same suit of clothes, the principle is not affected where a hundred people send away to a factory in central Canada and get one hundred suits. The principle is the same, though the financing is different.

MR. VAUGHAN: I do not think it is the same in effect. An individual cannot spend all his time going around shopping so as to buy everything at the cheapest possible price.

MR. FRANCIS: Let us take the man buying the suit of clothes. He reads an advertisement and finds he can get that suit for \$45 instead of \$50, which is the price the first store charges. So he says to his son, or to an agent, "Will you go and buy that suit for me?" He gives him \$50 and the agent comes back with \$5 in change. This man says, "You have been to a lot of trouble; here is \$1 to recompense you." And so he saves \$4. Well a hundred people cannot go to central Canada to make a collective purchase, and so they appoint an agent and say to him, "Here is \$5,000. Will you send for these suits and deduct the expenses, whatever they may amount to."

MR. VAUGHAN: A group of individuals can do that up to a certain point, but the stage is reached where, in order to carry on on a big scale, they incorporate, and they are able in that way to accomplish a good deal that they could not do individually.

MR. FRANCIS: Perhaps I can be of some help to you on that point. There was filed with this Commission a brief prepared by a western economist. It was filed on January 31 by a board of trade, and in it that very point was discussed. I want to be fair, and so I may say that in the first place the argument made in the brief was for

the elimination of double taxation, so called; but a number of other points were dealt with. This brief was prepared by Professor Reid, and I should like to quote from page 1:

"Taxes on corporation income have been justified on the following main grounds:

(1) As a charge by the state to reimburse itself for expenditures made necessary because of the existence of corporations.

"Economic development in the western world during the last several hundred years has been characterized by a steady growth in the size of the unit of business organization. The extension of the area over which trade takes place, technological developments, and the nature and extent of the resources available for development, have all contributed to the increasing superiority of large-scale methods of production. Almost all industries, with the notable exception of farming, have been affected by this trend. This increase in the scale of production has been dependent upon the aggregation of large amounts of capital -- in most cases much in excess of that which could be secured from any individual or small group. The concentration of capital has been made possible by the evolution of forms of business enterprise having independent legal personality and limited liability. The corporation has been by far the most important of such forms but in recent years the co-operative association has become increasingly important.

"Mass production by large-scale business enterprises has made possible very much higher average standards of living, but such a system has not worked smoothly and without difficulties. Severe unemployment has been encountered,

consumers are in danger of being exploited, friction develops between employers and labour, shareholders may be unjustly treated, monopolists may exercise an undesirable degree of control over certain fields of production. These are examples of situations which have evoked action by the state and its assumption of responsibility for oversight of the working of the economic system has involved it in heavy governmental expenditure. As many of these conditions have been attributed to "big business" it has been held that the funds necessary for such expenditures should be secured by levies upon the earnings of corporations.

"(2) As a payment for special privileges granted by the state. Corporate personality, independent of the individuals who have contributed the capital required and limitation of the owners' liability to the original investment are necessary if sufficient capital is to be brought together and the enterprise is to be efficiently conducted. These privileges must be granted by the state. It is maintained, therefore, that as such privileges are essential to functioning of the enterprise, the state is quite justified in levying a tax on their incomes in return for the concession."

On that basis, I say that none of these conditions arise in a co-operative. These are conditions which, by experience, have been found to arise in private profit corporations; and it is because they have arisen that economists argue that it is fair that the state should have some recompense for the trouble of keeping them nailed down. I am not an economist and I can only use the material that is before the Commission; but surely that is the answer. My argument is that none of these factors:

are involved, and this business of incorporation has nothing to do with taxation. It is entirely a different matter apart from this argument, and this 'does not' apply to co-operatives.

MR. VAUGHAN: Would you not have to take that a step further and see what causes depression in private corporations? Is it not due to shortage in purchases? And what is the cause of a shortage in purchases? If buying power fails people are not able to buy and consequently the companies that manufacture goods are not able to make them, and they are not in a position to maintain employment.

MR. FRANCIS: I have laid, I hope, a foundation for dealing with that in the later pages of the submission, and I would like to have discussion of the point deferred. For the moment I am trying to establish the distinction between a co-operative and a company.

MR. VAUGHAN: You say it does not happen in co-operatives and I say it does happen in co-operatives as in the others.

MR. FRANCIS: That is a matter of opinion; I take it we differ. My submission is that the evidence does not show the same results following from these great aggregations of capital in a co-operative as in the case of any private company. I would like to see evidence that they do.

MR. ARNASON: There was some discussion yesterday with respect to the use of the word "primarily". There has also been some discussion this morning as to what constitutes the main differences between a joint stock company and a co-operative. When we were over in Great

Britain we secured some information from the Registrar who was in charge of the administration of the Industrial and Provident Societies Act. He issued a circular in which he outlined what in his opinion might possibly constitute a basis for differentiating between the two, for the purpose of considering applications for registration. I am sorry I cannot quote verbally from that circular but, subject to that qualification, as nearly as I can recall, the distinction that he tried to establish was this: Where a society is organized primarily for distribution of its surplus in proportion to share investment, it would not qualify as a co-operative; but where a society is organized primarily for distribution of its surplus in proportion to the use made of the society by its members, it would tend to qualify. I am trying to summarize it from memory, but that was the substance of the basis outlined by the Registrar, and, as I recall, the word "primarily" was either used in that way or that was the intent to be taken from the statements made. I wonder whether you would care to comment on that difference one way or the other in view of the discussion that has taken place this morning -- the use of the word "primarily", for distribution of earnings in proportion to share investment, or "primarily" for distribution of surplus in proportion to the use made of the society.

MR. FRANCIS: I do not think that sums up the real distinctions, but it is valuable as a method of identification. It is valuable to have that on the record.

THE CHAIRMAN: The whole argument is this: you subordinate profit, whereas the other company makes it the predominant issue. You cannot say you absolutely eliminate profit, but you subordinate it to your other ideas.

MR. FRANCIS: The co-operative tries to eliminate profit, but it is not always successful.

MR. NADEAU: Would it be fair to put it this way: that the co-operatives tend to eliminate profits, but they also wish to keep these profits for themselves? Would that be the fair and sensible way of putting it?

MR. FRANCIS: I do not want to get into a discussion of terms that do not mean anything, but I do think there is a lot to be said for the use of the word "savings", whether it be a consumers or a producers co-operative, because what people want to do is to make savings; and, as I have tried to establish, in the case of the producer there is a saving, in expense in making the income. You have a saving on both sides. In the producer co-operative you save a part of the expense that you ordinarily have in production, so that I make that distinction. What you strive for in the co-operative is savings; what you try to eliminate is profit off anyone else. But the world being what it is, you cannot always achieve that end. That, however, is the aim, and you attain it as nearly as you can in a practical world.

I am through with the discussion of the distinctions, and I hope I have been able to convince you that there is a distinction. The differences were referred to by Professor McDougall as minor peculiarities, but there is another economist whom I wish to cite. In a book called "Consumers Co-Operation", Professor Gide quotes Marshall to this effect -- I have not read the book for some years, but he said something like this: a co-operative has the striking characteristic of being at the same time highly idealistic and very practical. Then he uses language which is rather colourful. He says it is at once Mary and Martha, Don Quixote and Sancho Panza; it starts out to reform but com-

mences by sweeping the pavement in front of its own door. That is the opinion of another professor of standing. Then we have the opinion of Bakken and Schaars of Wisconsin, who point out the great distinctions. I ask you to accept these opinions instead of the view that the co-operative has only minor peculiarities. The distinctions are fundamental, and if you so find, then all these arguments based on the premise that there is no essential difference between the two must go by the board.

Incorporated and Limited Liability.

26. A great deal of importance has been attached to the fact that most co-operatives are incorporated. Section 4(p) refers to associations with or without share capital and it is quite obvious that incorporation of co-operatives was contemplated.

26(a). Incorporation certainly is advantageous, although some witnesses considered that it was unnecessary. One very large co-operative organization, carrying on extensive business in the Maritimes since 1930, has not yet become incorporated and Mr. MacKichan stated that they had not experienced any difficulties because of not being incorporated (MacKichan - XII - 4430). It was brought to the attention of the Commission by Mr. Hull that in Denmark, where co-operatives are exceedingly strong and important, that there was no incorporation (Hull - VI - 1886). In many cases incorporation is imperative. In Saskatchewan, as the evidence shows, where more than 20 persons are engaged in business they must be incorporated. (McKay - IV - 1292).

26(b) The main features of a corporate entity are perhaps continuity and limited liability. It is submitted that the evidence has established the value of co-operatives

and therefore the importance of giving them continuity through the corporate device is important in the public interest. The weight of evidence seemed to be in favour of the incorporation of co-operatives, but for a reason entirely different from that which would apply in an ordinary joint stock company. The evidence is that co-operatives are incorporated so that they will measure up to a standard and so that there will be uniformity. The provisions of the Act, Memorandum and By-laws, serve as a guide for operational purposes. (Bickerton - V - 1610). In the opinion of Doctor Croteau, one of the main benefits of a Co-operative Act is that it holds the members to co-operative principles. The legislation under which co-operatives are established also provides, in most cases, for supervision and guidance and these are advantages which co-operatives obtain by obtaining charters. Great stress has been laid on the importance of limited liability. Some witnesses have particularly stated that they consider this an important feature. (McKay - IV - 1315) (Croteau - XI - 4027). Others have taken the position that it was of no importance (Wilson - IV - 1426). A lawyer must admit that it is of importance.

26(c) It is fair to conclude from the evidence that the importance of limited liability is not so great in the case of a co-operative as other types of corporations. It is regarded as essential in a co-operative that business should be done on a cash basis. Where this rule is adhered to the risk on the part of the co-operative is not nearly as great. Furthermore, the limited powers which most co-operatives have prevent them incurring serious liabilities.

That is open to some exceptions but it is the general rule. I discussed that yesterday.

Note particularly the very limited powers in the Acts of Saskatchewan, Alberta and Prince Edward Island with regard to credit business. Furthermore, a perusal of the financial statements of co-operatives, filed for the Commission, will show that the liabilities outstanding are not owing in any large measure to persons outside the association.

THE CHAIRMAN: Does a farmer never ask, when he is invited to join an association, whether his whole property is at stake?

MR. FRANCIS: I think he would.

THE CHAIRMAN: It must be very important to the prospective member to realize that his entire estate is not involved in the venture?

MR. FRANCIS: I admit that it is important, but when you look at the co-operatives and study the way in which they operate I think you will agree that the question is not as important as it is in the case of profit business. In Volume 4, page 1118, you will find a tabulation of 164 associations in Saskatchewan in 1938, only 20 per cent of the liabilities of which were owing to persons outside the association, and in 1942 it was down to 14 per cent. Those are consumer co-operatives. In producer co-operatives that is much higher. You will find it around 50 per cent. That will be found on page 5 of the bulletin of the Economics Division of the Department of Agriculture.

MR. VAUGHAN: In the light of the experience of the wheat pools, the farmers have attached great importance to the limited liability feature. There was a great loss there, and without that limited liability feature they could have demanded payment as far as possible from the farmers.

MR. FRANCIS: I have troubles enough of my own, Mr.

Vaughan, without undertaking to discuss the pools, and in any case they are well represented. But I think I know the answer.

MR. VAUGHAN: It comes into your argument, though.

THE CHAIRMAN: When you suggest that the importance of limited liability becomes largely academic, would you advise a farmer to join an organization in which there was no limited liability? Would you not tell him, in that event, that his whole farm was at stake if the venture went wrong? It is a very real and practical question and the unfortunate farmer is the very man who does not know it unless he is told. An ordinary business man in Montreal or Toronto would know that.

MR. FRANCIS: I am thinking of a group of people in a neighbourhood forming a co-operative. They know one another and they know what they will do. They will have control of the capital. It is not like sending it to Montreal or Toronto for someone else to supervise, and they would not undertake it unless there was a desperate need in the community for these services.

THE CHAIRMAN: Some of them must have learned some bitter lessons, then, when the organization failed; and if the governments of Saskatchewan, Alberta and Manitoba had not come to the rescue of the farmers when the depression came they would have been in very bad shape, would they not? I do not like that argument, Mr. Francis. Perhaps you have gathered that by this time.

MR. FRANCIS: I have been so busy with the co-operatives that I really think I should stick to them in the matter of argument. I have every wish to answer questions, but if I undertook to discuss the pools I would find myself involved in facts, which I am not sufficiently familiar with.

It is safe to assert that when the corporate method is adopted by a co-operative, the limited liability feature is not regarded as being of any particular significance, and if co-operatives continue to be encouraged, and permitted to set up necessary reserves, the matter of limited liability becomes largely academic.

26(d) Co-operatives certainly do not desire to take advantage of the protection afforded by the limited liability feature, as much as the privilege of setting up safety margins to insure against any possibility of a failure that would result in loss to third persons. They are not interested in hedging on a profit venture, but in the continued utility of the organization.

Where you have a neighbourhood group of people who join a co-operative, knowing one another, the matter of limited liability is not as important as it would be if there were a widely scattered membership, most of whom were not mutually acquainted. The neighbourhood tie, if I may use that expression, is of great importance, as in the case of the credit union. The loss record there is from 1/20 to 1/10 of 1 per cent, and I suggest that the limited liability feature there was not important because of the neighbourhood feature -- control, and so on. Notwithstanding all precautions, however, there was a great depression and if you will look at the records in Dun and Bradstreet you will find that there were other organizations that got into financial difficulties.

MR. VAUGHAN: If we take your word for it that it is not important, would it be all right to eliminate the limited liability feature from the legislation?

MR. FRANCIS: What I am trying to establish is that, because of the nature of the co-operative, it is not as

important as it is in the case of other companies. It is going a little too far to say that it is academic generally, but I suggest that it is academic in a neighbourhood group. I have never heard the question asked. I do not know whether Commissioner Arnason ever did. Did he ever hear the question asked as to limited liability, in any of the groups with which he has been in contact? Where a co-operative is restricted to a neighbourhood or locality in which people are acquainted with one another, then the question becomes academic. That was what I had in mind. A study was made in Saskatchewan showing that out of 531 dissolutions, in 126 cases all share capital was lost, and in those cases there may have been some loss to outside parties; and in 405 cases 70 cents on the dollar was retained. That statistical item supports the argument that in these local neighbourhood co-operatives limited liability is not really very important.

A charter is a facility for use of members as much as any physical facility. It is simply another instrument people use to achieve certain purposes.

It has been suggested, through questions put to various witnesses, that because a co-operative received incorporation from the state that it should be required to pay income tax. (See - V - 1612). When a joint stock company is incorporated it pays a fee for that privilege. In some provinces the fee varies from \$40 to \$500 and even more. When a co-operative is incorporated, in most provinces it also pays a fee, lower because of the benefits deemed to be derived from co-operative activity.

That is my submission. Some of these statements that I make here may sound dogmatic, but this is an outline prepared for my own use and the statements are merely put forward as submissions.

The fee varies from \$4.50 to \$16.00. In the Province of Nova Scotia there is an exception and no fee is payable, but it is submitted that the fees are compensation for grant of the privilege and that the incorporation has nothing to do with whether or not the incorporated body makes an income or whether or not that income should be taxed. In all but two or three cases in Canada incorporation of a co-operative is granted by provincial legislatures and any recompense that should be paid for this purpose should be paid to the province and would have nothing to do with any obligations to the Dominion.

Professor Reid answered that in the Saskatoon Board of Trade brief. If further argument is needed on that, it will be found there complete.

27. It has also been submitted that there is a definite distinction between a "true refund" involved in the performance of service for an individual customer on a cost basis, and refunds which result from the overall operation of a business involving many individual transactions. The answer is that a practical common sense method is adopted. If approximate equity can be achieved, then the members voluntarily agree to accept a flat rate of refund, but if the nature of the business is such that there are substantial spreads, the commodity dividend method is adopted, and equity thereby achieved. To do business at as nearly cost as possible Canadian Livestock Co-operative paid differential dividends which varied from 1/3 of 1 per cent to 6 per cent. (McEwan - XI - 4185).

That was done in an attempt to distribute as accurately as possible on a patronage basis.

Furthermore, where co-operative legislation is in conformity with co-operative principles, the directors are

joint stock company. This compulsory feature supports the contention that the directors are merely trustees for the purpose of using the members' funds for providing goods and services without profit.

Claim that the Tax Position has caused Public Resentment:

28. It has been contended repeatedly before the Commission that the alleged tax discrimination, in favour of co-operatives, has caused public resentment, unrest, friction and instability throughout Canada. (Cross - IV - 1164).

It must be admitted that there has been a great deal of resentment and misunderstanding with respect to the tax position of co-operatives. But our submission is that this has been caused not because of the true situation as it exists, but because of the representations which have been made and widely publicized. If certain evidence placed before this Commission can be substantiated, resentment on the part of the public can be understood.

28(a). Alleged Loss of Revenue. In a brief submitted in Vancouver, it was stated that in 1943 co-operatives avoided payment of approximately \$100,000,000 in annual taxation. (Vol.- I - 253

When questioned by one of the Commissioners --
"That figure, I take it, is not from Richards and Lalonde of the Market Service", Counsel replied, "I think so; I was careful in obtaining those figures."

Very wide publicity was given through the press of Canada to the allegation. This information was not, of course, furnished by the Markets Service. The figure of \$100,000,000 was referred to in a pamphlet published by the Income Taxpayers Association and widely circulated, although it was said to be a tax subsidy given to tax exempt business. Although it was not specifically restricted to co-operatives, possibly this was the source of the information used in the Vancouver brief. A large number of people got the impression that co-operatives had avoided the payment of taxes to the extent of \$100,000,000 in 1943. It was quoted in the Board of Trade brief, St. John, and admitted to be a wild guess (Nickel - XI - 4092). It was quoted in "Hardware and Metal" and in Retail Merchants brief (McQuarrie - IV - 1235). The loss due to exemptions given co-operatives was however, estimated at \$17,500,000 in the Income Tax Payers Association brief (Vol. VI - 1800).

When asked to describe the method of calculating this amount, the figures of total co-operative business furnished by the Economics Division of the Dominion Department of Agriculture were used, the volume being approximately \$350,000,000.

However, we suggest the basis of computation is quite erroneous because a net profit of 10% is used in the estimate. An analysis of the businesses in which co-operatives were engaged shows that the margin is very much narrower and we are satisfied that an examination of the financial statements filed with the Commission will confirm this view. It is suggested a net earning of 3 per cent would be a liberal estimate on merchandising or marketing the staple commodities listed. On this basis \$10,000,000 would be a fair estimate of the net surpluses arising from co-

operative business before allocation of patronage dividends for those businesses reporting to the Economics Division.

1. Further analysis of statistics furnished by the Dominion Department of Agriculture indicates that the increase in reserves, surpluses and paid up share capital from 1941-42 to 1942-43 is approximately \$5,000,000. It is reasonable to assume that in the co-operatives under consideration most of the balance of the \$10,000,000 of net surplus, that is \$5,000,000, was paid out to members in patronage dividends and therefore should not be subject to income tax under any of the arguments before this Commission, except those taking a more extreme view. In addition, it should also be pointed out that evidence gives the information that much of the increase in paid up capital would be in the form of new capital rather than out of the \$10,000,000 of net surplus. The evidence also indicates that a substantial proportion of the increased reserves may have been allocated and that many financial statements do not indicate the distribution or allocation of the current year's net surplus for balance sheet purposes.

Those two features would tend to increase the possible incidental taxable income of co-operatives requiring consideration for exemption from taxation as necessary reserves. A further item that would affect these statistics, is the fact that evidence shows that a number of co-operatives could not meet the requirements of clause 4(p) and did not pay income tax. Assuming, however, that the whole \$5,000,000 increase represented by reserves, surplus and paid up capital was taxable, and the tax was wholly lost to the national treasury, which it should not be on portions which are allocated or distributed, the total tax payable in accordance with the basis of 50% of net surplus used by the Income TaxPayers

Association for the year 1942-43 would be \$2,500,000 and not \$17,500,000 or \$100,000,000 as stated erroneously.

28(c) With reference to the \$5,000,000 paid in patronage dividends the individual taxpayer will pay income taxes insofar as his income is increased,

The evidence is that Farmer "A" received dividends of \$1,097.70, increasing his personal income tax 109 per cent or \$278.16. Farmer "B" received dividends of \$496, increasing his income tax 191 per cent or \$109.14. (Love - III - 1070). This was substantiated by other evidence given (Rankin - V - 1504) (Personal statements filed) (Cheyne - I - 448).

I do not think I need take up time with this. I hope the Commission is satisfied that there was no wholesale conversion from private businesses to co-operatives. What did happen was this. Until the people got some resources in their own hands they could not establish the facilities they wanted, and moreover, under the regulations of the Wartime Prices and Trade Board, it was not possible for a co-operative like Davidson, wishing to open up new services, to do so. They could not proceed in the ordinary orthodox co-operative way, and the only thing to do was to take over the complete business as a going concern. And it is fair to point out that this took place on the prairies, which were opened up in the early part of the century when men came in and established businesses all over that country. I have not the statistics, but observation indicates that the average age of the pioneers is advanced. They are now old men, many of them being in poor health, and they want to sell out, so that it was really doing them a favour to have a good buyer standing by.

Mr. Fitzpatrick and Mr. MacKay have told of their experiences and they assured us that, among the reasons given by these men for wishing to sell out, they never heard income tax mentioned. I say, therefore, that the public resentment that was caused by the attack has done a tremendous amount of damage to the co-operative cause. Why did you have so many briefs presented here? These charges were made and flashed across the country, creating alarm. Business men were alarmed and they called boards of trade together, convened meetings, and came here with brief after brief, a lot of them run off on the mimeograph machine. But they were based on information that was not true. I do not say that in any unkindly spirit, and the reason I stress the resentment is that it was made to appear that the opposition to the co-operatives was very much more than it should have been, if the truth had been told. And now we are telling the truth. This is the first occasion I have had to deal with the matter since we left Vancouver. It was not until yesterday that our turn came.

MR. VAUGHAN: If that information was not correct perhaps you can give us the right information. How many privately-owned businesses were taken over by the co-operatives last year?

MR. FRANCIS: I have not that information. I have been busy with other things. But it was stated in italics: "Do you know for instance that according to the records of the Wartime Prices and Trade Board, in the first six months of 1944, 171 retail stores in the province of Saskatchewan alone were converted from taxpaying ownership into non-taxpaying co-operatives?" -- implying exemption not only from income tax but from all other taxes. I admit in my outline that there is resentment, but I am trying to

I am trying to show that the resentment is made to appear far greater than it would have been if the truth had been told. The truth was that, from the very best evidence available, in the whole year of 1944, there were 59. In Alberta there were 15 and in Manitoba there were a few. The truth regarding the \$100,000,000 was \$2,500,000.

MR. VAUGHAN: What are the complete figures in regard to the taking over of private business?

MR. FRANCIS: There were 23 taken over in the first six months under the auspices of the Federated Co-operatives, and there may have been a few independents, so it is probably 30.

Adjournment at 12.30.

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(page 8040 follows)

Pursuant to adjournment the Commission met at
2 p.m.

THE CHAIRMAN: Very well, Mr. Francis.

MR. FRANCIS: My lord, to continue from where I left
off at the adjournment, I deal now with the claim that
private businesses were converted to co-operatives.

Public resentment is also caused by the representation
that private businesses were being turned into co-operatives
at an alarming rate and that loss of revenue from income
taxes resulted. It was widely publicized that because a
business that had paid income taxes in 1942 was purchased
and operated as a co-operative in 1943 the government thereby
lost these taxes. It was admitted later in the evidence
that this claim could not be wholly substantiated for three
reasons:

"(1) the loss to some extent could be made up
by increase of personal income to the members
of the co-operatives (I - 448),

(2) revenues would be derived from the taxing
of investment income in the hands of the
vendor of the business (I - 448),

(3) in the case of the conversion of businesses
operated by individuals it was clearly brought
out in evidence that there may be an increase
after a co-operative had purchased private
profit business (Bagnall - V - 1512)."

In the province of Alberta the evidence was that in
the previous year only 15 private stores had been acquired
by co-operators, (Fitzpatrick - II - 494).

Although cross-examined at length this witness, a

government officer, established the fact that conversions were not being made with a view to evasion of tax. They were made because of the desire of the private merchants to retire from business because of age, health, or lack of help,

In Saskatchewan it was established that more than eighty per cent of the new stores starting to operate on a co-operative basis have resulted from co-operative bulk trading associations expanding their services. (Turner - IV - 1113).

Other reasons included sympathy for the co-operative way of doing business, exacting requirements of doing business, clearing up estates, age, overwork and desire to move to a centre where there are educational advantages. The evidence was that income tax had never been mentioned. (McKay - IV- 1386 - 7).

The claim had been repeatedly made that in Saskatchewan 171 stores had, during the first six months of 1944, been converted from tax paying establishments to non-tax paying co-operatives. In the pamphlets distributed by the Income Tax Payers Association this was in italics and was put in the form of a question:

"Do you know for instance that according to records of the Wartime Prices and Trade Board in the first six months of 1944 171 retail stores in the province of Saskatchewan alone were converted from tax paying ownership into non-taxed co-operatives?" (Leader Post and other publications - Mrs. Neal - IV - 1264).

It is submitted that this was very alarming to a great number of people who were not aware that this was not

true and who assumed that it referred to all taxes, as it was not made clear that income taxes alone were involved. The truth was that during the whole of 1944 the number of stores converted numbered 59 and that during the first six months numbered 23 (McKay - IV - 1371). The further charge was made repeatedly that the co-operatives could and did purchase these new stores and extend their facilities because they were able to do so from reserves built up because of the tax exemption. The evidence in Alberta on this point was that the amount of capital was ascertained and a campaign was put on and money raised by selling shares. (Love - III - 1084)

Acquiring of private businesses by co-operatives:

Possibly no one in Canada has a better knowledge of this matter than the witness McKay and his evidence was very convincing on the point. The evidence is that due to the regulations of the Wartime Prices and Trade Board it has not been possible for some years for a co-operative to open new branches and follow the recognized policy of gradual, orderly expansion. In lieu of the normal policy it has been necessary for co-operatives to acquire a business as a going concern and this accounts for the number of transfers of such businesses. (McKay - IV - 1376). The transfers were not, of course, nearly as great as reported. The claim that 171 businesses had changed hands from private to co-operative ownership, in the first six months of 1944, was not, of course, correct, the truth being that twenty-three had changed hands as shown by the evidence of McKay (IV - 1371). This information, however, was distributed throughout Canada as admitted by a number of witnesses, and this accounts for the excuse put forward by many witnesses that they were fearful because of the rapid change from private to co-operative control. It is a

fair conclusion from the evidence of McKay and Fitzpatrick that merchants, due to age, shortage of help, ill health, interest in co-operative development and the winding up of estates welcomed the opportunity to dispose of their businesses at a reasonable price to their fellow citizens.

(McKay - IV - 1386 et seq.) (Fitzpatrick - II - 495 et seq.)

There was also a great deal of misleading evidence indicating that all expansion took place from reserves. It should be pointed out that much of this expansion was made possible by the subscription of new capital. Assets were acquired from the sale of shares (Inkster - VII - 2492). Federated co-operatives alone secured \$120,000 through bond issues for expansion purposes (McKay - IV - 1389). Although the claim has been made repeatedly that every time a private business is converted to a co-operative that revenue is lost to the national government. It is submitted that this claim has not been substantiated, and the fact that evidence has not been called is some indication that the evidence is not available; in fact, the only evidence adduced before the Commission on this point was by the witness Bagnall who showed that even in the prosperous years of 1942 and 1943 he operated in one year at a loss and in the other at a profit only yielding about \$100 in income tax -- while in 1944, as manager of a cooperative, his income tax was higher than it had been for many years. The onus is on those who claim that there has been a loss and that onus has not been fulfilled.

One witness who gave evidence before the Commission reported that he could not see that private business had been hurt in any respect by the development of

co-operatives (Bickerton - V - 1594). With regard to expansion, there is evidence to show that the development was more rapid in some districts before the war than during the war (MacDonald - XII - 4476).

The Halifax Board of Trade alleged that co-operatives had resulted in less stores and less business but this was not supported by any testimony. The normal development of a co-operative is shown by illustrations such as Davidson, Baddeck and Morell. If there is any so-called abnormal development caused by wartime dislocation, it is submitted that such is purely temporary.

In Saskatchewan the evidence was that of approximately \$328,000 paid for thirty-six stores purchased under the auspices of Federated Co-operatives Limited in 1944 all but approximately \$17,000 was raised by new capital and of this \$17,000 a portion represented unpaid balances. (McKay - IV - 1388).

In Manitoba the evidence was that money used to buy new stores was invariably raised from new capital. (Chown - VI - 1920).

It is therefore submitted that any public resentment there may have been was caused through misunderstanding or misinformation received by the public.

It is further submitted that the very best method of avoiding public resentment is to develop a system which will give as many people as possible a stake in the ownership of the distributive and productive plant of the nation, and the larger the interest is and the more widespread it is the less is the likelihood that large numbers of people will be discontented.

Now I come to the claim "that private companies will

be forced out of business".

This suggestion has been repeated in nearly every province in Canada, and in a very large number of briefs presented by the other interests. The claim has not been substantiated by the evidence. It is true that there has been a very substantial increase in the volume of business done by co-operatives, but there has also been a substantial increase in the volume of ordinary profit business.

I think I can deal very briefly with this claim. I say shortly that it has not been established. It has been made many times, but it has not been established. It is not necessary to say much more about that.

The statistics show that for many years the trend has been to replace private individual profit business by chain stores under central corporate ownership and control or have local stores financed by profit corporations in the capacity of wholesales. The statistics on that are not very satisfactory, and do not support that claim very fully. I want to make that observation. I have a question mark opposite this. This is my outline, you will understand, and I have a query opposite it. When I went into the statistics I found that this summary, I think, would be fair; that years ago this trend was apparent, but that it has levelled off. I think that will be your information, from the authorities.

To anyone who has observed the distributive system which has been used in many small towns and villages of western Canada, it is apparent that the system has tended towards inefficiency where there were too many stores. In an area which could be well served by one well-stocked, well-managed, general store, we find, and this is common knowledge,

that there are very often several private profit stores, which are not well-stocked or attractive, and the owners of which too often do not make a satisfactory return on their invested capital, and their labour. The statistics will show this, that the average income of these small merchants is very low. I believe the statistics will bear out that statement. Certain interests have appeared here representing those merchants. I should like to point out that the great body of the merchants represented by, say, Professor McDougall were individuals, taxed exactly the same as co-operators, and not corporations at all, though the whole argument was referred to as being in connection with corporations. If I am wrong in that I should like to be checked, because that is my understanding; that a large percentage of the merchants are not incorporated, so that the corporate argument does not refer to them. That is all I want to say.

MR. ELLIOTT: May I interject there that I presume you are speaking to the income tax sections, and not to clauses 1 and 2 of schedule 12 of the Excess Profits Tax Act?

MR. FRANCIS: Yes. Most of my references here are to the income tax, and of course I have that in mind.

Such a system is inefficient, because there is such a duplication of management and facilities. But in spite of this very high overhead, the people of the community are not adequately served, either in matter of price, quality of goods or range of selection. With such a situation it is inevitable that all this duplication must tend to give way to a more efficient system. In some communities it has given way to the chain store,

and as in other large efficiently run profit enterprises, this had certain advantages, and in certain respects there was an improvement, but as the people of the community consider the main purpose of the distributive facilities is to serve their needs, they consider a better alternative is to establish their own distributive facilities, which should be related to their own needs, and under their own control, and thus could be operated without a profit to anyone. While it is not admitted that profit businesses are being replaced by co-operatives, even if this were the case, it would likely be justified in the interests of progress.

I deal now with the claim "that there is a danger of co-operative monopolies", made by the Toronto Board of Trade, Canadian Wholesale Grocers Association, Retail Merchants Association, Saskatchewan, and others.

This claim is denied for the following reasons:
It appears that law does not regard co-operatives as monopolistic.

Parliament in enacting restraint of trade sections of the Criminal Code feared the formation of trade combinations "which would destroy competition and greatly raise the price of the commodity to the consumer".
Chute, J. in Wampole & Company vs F.E. Karn Company (1906) 11 O.R.R. 619. It is significant that section 498(a) specifically provides that the provisions of paragraph (a) "shall not, however, prevent a co-operative society returning to producers or consumers, or a co-operative wholesale society returning to its constituent retail members, the whole or any part of the net surplus made in its trading operations in proportion to purchases made from or sales to the society." Parliament did not require any such safe-

guard or penalties with respect to co-operatives as that deemed necessary in the case of ordinary profit business.

During the war the control of prices has been generally considered, and, in particular, has been of benefit to persons earning moderate incomes. This has been a check on prices, and the whole question is whether we will continue government control, or go on with a substitute by way of voluntary check by the co-operative method. That is my argument here.

Co-operators have in normal times, in a number of instances where their membership represents a reasonably large portion of the community to be served, tended to influence prices and thus to give similar benefits to the whole community as well as their members without the necessity of special government regulation. Before the co-operative form of business developed in Canada, profit business had virtually a monopoly in many fields except where state regulations were exercised for purposes of control. The findings of the Price Spreads Commission indicated that that situation was not entirely satisfactory and led to unfortunate results. Further development of co-operatives will tend to adjust some of the tendencies apparent when virtually the whole commercial business field was occupied by profit business.

There is a tendency toward monopoly in profit business. In a co-operative such is not the case. That sounds very dogmatic, but that is my note in the outline, and that is the statement I make to you.

The factors which make a monopoly undesirable, such as secrecy and control of large volumes of producers' and

consumers' goods by small groups, cannot be present in any co-operative as long as membership remains unlimited and open to all those who use the co-operative.

In so far as consumer co-operatives are concerned, since they are open to all, and the basis of control is very wide, there can be no possible objection to a monopoly by customers, since they are the only persons directly concerned in the use of the services.

Although there is no danger of a monopoly in so far as consumer cooperation is concerned, it has been submitted on many occasions before the Commission that there is, however, danger of a producer monopoly. There are a number of reasons why this is not a probable result of extensive co-operative development in the producer field. The evidence shows (O'Brien - 16 -p5479) that many producers are desirous of obtaining the full return for their commodity immediately and are not prepared to wait for interim or final payments. Other producers are not willing to go to the trouble to produce goods that meet the high standard required by the co-operative. Others are very individualistic and prefer to market their own products in their own way. However, the most important obstacle in the way of a producers' co-operative becoming monopolistic is the fact that at some stage the producers must come into contact with the consumers, and in a well-balanced co-operative movement, such as the leaders in Canada are trying to develop, and where there is growing up a well-integrated consumer movement through which the consumers are represented, there is the best guarantee that a producers' co-operative can never become a monopoly in the sense that it would be inimical to the public

interest.

MR. ELLIOTT: I think that clears up the point I had in mind, Mr. Francis, particularly your qualification of the dogmatic statement made a little previously.

MR. FRANCIS: The point I should like to stress in this and in all other matters is that I should like to argue the Canadian situation. What happens in the United States is very interesting and may be revelant; what happens in Great Britain is very relevant, but in this country we are trying to take advantage of the experience of both countries. We are trying to get a balance; and the very fact that producers' and consumers' co-operatives meet in great national bodies -- though they do not always agree very easily -- the very fact that they are attempting to solve their problems face to face, is a very important matter. Here are the two people necessary in any economy, the consumer and labour, which is really what the farmer is, who are brought together and who talk about their common problems. So with great respect my submission is that this is a Canadian problem we are talking about, not a British problem nor a Scandinavian problem nor an American problem. It is a Canadian problem.

Co-operatives afford a device whereby people either as consumers or producers can exercise some control over the supplying of their needs and some participation therein. As the consumer co-operatives develop more and more members of producer co-operatives derive experience in supplying themselves as consumers and this brings to them an understanding of the limits to which a producers' co-operative can go and the degree of control which can be properly exercised. It is a fair inference, from the

evidence, that this is the experience in Saskatchewan, and, as further development takes place in other provinces the same result should follow, In short, co-operatives are a device for reuniting the consumer and producer at the same time preserving the benefits of a large scale organization.

The guarantee against any possibility of an undesirable monopoly is the encouragement of further consumer co-operative development which always affords the following alternative -- the capacity to enter the field of production where any tendency to monopoly exists, whether or not the field is actually entered.

The kernel of monopoly has been said to be the removal of competition in order to control price. The dictionary meaning of monopoly -- "Exclusive control of the supply of any commodity or service in a given market, or, popularly, such control as enables one to raise the price above that fixed by free competition."

The Wholesale Grocers Association servicing virtually all of the 137,000 retailers of Canada envisions the creation of a "multitude of monopolies each alone and supreme in its own chosen field and territory." It was contended that the trend in this direction is already evident in the retail trade. After reference to the purchase of certain stores by co-operatives the prediction is made "The more extensive this absorption the more the remaining taxable survivors will have to pay until this vicious spiral induces one by one to fall leaving a perfect monopoly in its wake." (Evans - VIII - 2750).

The retail merchants and many others opposing the claims of consumer co-operatives levelled at them the monopoly charge (McQuarrie - IV - 1215).

Mr. Francis

It is well to consider the position before co-operatives were established under the control of the people who needed them. One of the clearest statements was given from his own knowledge by one of the counsel who appeared for other than co-operative interests. Speaking of the history of forming of co-operatives he said,

"I can safely say there was virtual monopoly on the part of the elevators. Farmers were at the mercy of the elevator companies."

(Thomson - IV - 1188).

The evidence is that private coal mines would not sell coal to the co-operative wholesale organization and it was necessary to go into the mining business in order to obtain supplies. (McKay - IV - 1309). It is clear from evidence given in the maritimes that private fish dealers had a virtual monopoly (MacKichan reference to Royal Commission report - XII - 4395).

It has been found by investigation that there are informal price agreements with respect to such commodities as oil, agricultural implements, canned goods, sugar, cloth and many hardware products ("Control of Competition in Canada", Professor Lloyd G. Reynolds, Harvard 1940). This study indicates a tremendous concentration of power in the hands of a very few. Before the Commission the Canadian Retail Federation representing business in 1941 of nearly three and a half billions complained the members were seriously affected by the privileged treatment of co-operatives doing a business of less than twenty millions in the retail trade.

Here I have drawn to your attention a work on "Control of Competition in Canada," which is a work on this whole matter of Canadian co-operatives. Professor Reynolds

is very well known. Then I should say that when I refer to the co-operatives as doing a business of less than \$20,000,000 in the retail trade, that figure may vary a little one way or the other, but there is that contrast between \$3,500,000,000 on one hand and \$20,000,000 on the other. So this idea of the co-operatives taking over the country within the next few years is just so much nonsense.

MR. V. UGHAN: Do you not think the complaint comes principally from localized business, rather than from business as a whole? If you took the localized business you would find at some points perhaps a very large proportion of the business being done by the co-operatives.

MR. FRANCIS: I admitted that this morning. I admitted that up to fifty per cent, perhaps in one locality, might be co-operative. But if you look at the whole picture the percentage would be very small. I quite agree that in local communities, in a particular commodity, you may have a very large percentage of the business in co-operative hands.

Mr. Bickle admitted that until co-operatives entered the field profit business had a monopoly but objected strenuously to co-operatives being put in the same position (VII - 2306).

Mr. Innis (VI - 2226) representing independent garage and service operators stated --

"The avowed purpose of the co-operative movement in its inception, was to combat the monopolistic tendencies of large vested interests."

He admitted co-operatives were able to bring prices down by collective buying. (Innis - VI - 2223).

Now I take up the claim "that co-operatives tend to destroy capitalism":

In the Independent Dairy Brief presented at Vancouver the following statement appears:

"If the purpose of the state is not to stimulate competition, but to destroy capitalism, then this tax condition is justified." (Farris - I - 238).

We submit that competition is stimulated in co-operative endeavour. We have individuals and groups competing vigorously in the extent to which they can help themselves. We find that in Saskatchewan, in those towns I mentioned.

They relieve and eliminate some of the wastes of the profit system, and there is always the spur to fill economic and social needs of individuals and groups.

Communities (as the evidence shows) compete to fulfil their needs as rapidly and adequately as they possibly can. True this is not competition for material profit from some other person but it is competition for mutual self-service, which is co-operation.

There is no intention to destroy capitalism. The intention is to preserve it. Capitalism is implied in any system where there is a dominance of private capitalists, and a capitalist is merely a possessor of funds to be used in production. That is, you have a number of little capitalists in this movement.

Co-operatives clearly fall within the definition of capitalism, -- that is, in the sense I have described -- and instead of tending to destroy by eliminating some of the objectionable features of profit capitalism they actually tend to perpetuate the dominance of private capitalists who may or do include the groups mentioned above, i.e., primary producers, low income earners, and others who cannot afford or do not want to pay a profit to the

profit makers. Even where there is a large measure of socialism or state control, such as in the Scandinavian countries, capitalism has been preserved in co-operatives. It has not been destroyed; it has been preserved, and in the preservation of it you practice and stress the idea of thrift in the individual.

I next deal with the claim "that co-operatives receive a subsidy":

"The exemption is a concealed subsidy with all its evils." (Independent Dairies Brief (Farris - I - 234)).

"If a subsidy is paid the state is entitled to know how much is being paid, and to whom it goes."

This claim has no substance. In the case of a cooperative the primary producer receives his full return for his productive effort. Whereas, in the case of the profit company, the primary producer "subsidizes" the profit maker to the extent of the profit, and the state takes a part of the "subsidy" which the primary producer has paid or given as profit. It is not a case of the state "subsidizing" the primary producer, it is a case of the primary producers who do not wish to go to the trouble of helping themselves, actually "subsidizing" the profit maker, and when the total subsidy is excessive, the state, in the interest of the national welfare, quite properly takes a share of that so-called subsidy to return it in services to the whole community.

I use the word "subsidy" there in a special sense, and put it in quotation marks. That is what really happens. When you talk about subsidies, it is exactly the opposite of what the private interests contend, speaking in a very general

general sense. I am not using the word in the technical sense, but that is really what takes place, I suggest.

The claim was also made that the subsidy does not go to the farmer most needing its benefits, but to those who are well established (Farris - I - 235). This is refuted by the evidence given across Canada.

It should also be stated that co-operatives have always made it a practice of making their records and information concerning their business available to their members and also to the state at all times.

I come now to the claim "that the development of co-operatives destroy initiative":

This claim has been put forward by profit interests including the Retail Merchants Association of Canada.

Because co-operatives do not work for profit in the ordinary way by taking a little extra on the basis of investment does not mean that they do not encourage initiative for some other result which may be of more importance in the public interest.

All I ask you to do here is to please recall the witnesses who came before this Commission, and see if you regard them as men without initiative. Think of a representative group of the men in control of this movement. Think of men like Phillips, Blake, McKay, Wilson, Johnson, Scott, McEwan, O'Brien; all these men. Do they give you the impression that they do not have any initiative? It may be of a different kind, but I suggest to you that they have great initiative. I suggest to you that perhaps the representatives of the private business think they have too much; but they do have initiative. Anyone who suggests that dividends

received as a return on capital are the only thing that will encourage initiative I believe should consider this fact; that the great majority of the people who run profit business are people who get salaries, just as the great majority of the people in the co-operative business, the people who run it, get salaries, and they do not get dividends. It is not profit in the sense that we are talking about at all; it is salary. Look at nurses, school teachers, civil servants, soldiers and so on. None of them get profits. Surely you would not suggest that they have not initiative. They have initiative of the finest calibre. I think that initiative argument is simply fallacious.

The evidence yields many examples of where co-operatives have had the initiative to provide a service which profit business did not or would not supply i.e. Masset, Kandahar, Madawaska.

It is submitted that the witnesses appearing on behalf of co-operatives from every province of Canada showed no lack of initiative and these were men who were not in receipt of any profit in the ordinary investment sense. On the contrary they showed great initiative. Some of the representatives of profit business seemed to think they had too much. It is an error to assume that profit, in the ordinary sense, is the only or the chief incentive which gives people initiative to develop services.

The following receive only salaries and do not receive a profit in the ordinary sense -- yet they have plenty of initiative. Nurses have initiative to alleviate the suffering of the sick and injured; teachers have initiative to improve the minds of the young; soldiers have initiative to defeat the enemy; judges have initiative to achieve justice,

Co-operatives do not, as alleged, destroy initiative. They encourage initiative. The witness Bagnall had experience in profit business and co-operative business and he found the latter more satisfying. (V - 1513).

"Claim that co-operatives ask favours and special privileges and seek government aid":

"George J. Holyoake, Historian of the Rochdale Pioneers, has given probably the clearest of all definitions of co-operation. 'Co-operation supplements the ordinary economy by organizing the distribution of wealth; it touches no man's fortune. It causes no disturbance in society. It gives no trouble to statesmen. It enters into no secret association. It contemplates no violence. It subverts no order. It envies no dignity. It asks no favours. It keeps no terms with idle. It will break no faith with the industries. It asks no special privileges. It seeks no government aid. It fears no competition, in trade or any branch of production. It abhors monopoly and will fight it to the bitter end. It seeks healthy competition, knowing that this is the soul of all true progress. It means self-help, self-dependence, and such share of the common competence as labour shall earn, or that it can win, and this it intends to have.' "Co-operatives are asking favours. Co-operatives are asking special privilege. Co-operatives are seeking government aid. Some co-operatives are becoming monopolistic in tendency." (McQuarrie - IV - 1929 on behalf of the Retail Merchants Association of Canada Inc. Sask. Branch).

As contrasted with profit business seeking tariffs and

preferences, co-operatives do not ask favours and special privileges. They claim the right to do business without making a profit, and governments which represent all the people, realizing the benefit to the general welfare, give certain supervision and guidance, just as they give assistance in other forms of enterprise, agricultural production, research for the benefit of industry, educational grants, and many other generally accepted government services to trade and commerce.

To seek government aid is not the policy of co-operatives. That is clear from the evidence. From time to time governments of many political complexions have considered it in the public interest to make loans or guarantees to co-operatives to assist them in organizing.

The grants which have been given to co-operatives by governments have been very limited, considering the amount of co-operative business which has been done, and the benefits which have flowed therefrom that may be apart from Quebec. Possibly Saskatchewan has had more advanced co-operative development than any other province in Canada, and possibly the benefits have been greater than in any other province, but over a period of forty years the government of Saskatchewan has only granted to co-operatives of all kinds amounts slightly in excess of \$100,000. (IV - 1110). I am talking about grants there; that is in the evidence.

A number of briefs have referred to the assistance given to Canadian Co-operative Implements Limited by the governments of Alberta, Saskatchewan and Manitoba; you will remember that a quarter of a million dollars was advanced by way of loans. It should be borne in mind that the government of Canada and the governments of the three prairie

provinces have, for many years, been concerned about the high cost of farm implements, and especially the exorbitant costs of distribution. A parliamentary committee recommended that the profit companies reduce these costs, and if this were not done, that the co-operative distribution of implements should be undertaken. That is what was done; and by the way, speaking of the governments, you have a government of one political complexion in Manitoba, a government of another political complexion in Saskatchewan, and a government of still another political complexion in Alberta, yet the three of them come together and lend to the C.C.I.L. a quarter of a million dollars, and are prepared to lend them another three-quarters of a million dollars under certain conditions. So to suggest that there is any political tie-up in this thing is just contrary to the facts.

In Saskatchewan a special committee of the legislature also dealt with the problem, and the report approved of the co-operative distribution of implements, and the granting of loans to the co-operative to assist in solving a problem which was of great concern to the farmers of western Canada. It was not so much that the co-operatives were asking for government assistance, but it was rather that the people of western Canada sought the assistance of government leaders in solving a problem of vital importance to all the farmers of the west. Furthermore, it should be borne in mind that the advances made, or contemplated, have been, or will be, by way of loan, fully secured by the assets of the co-operatives, and bearing a fair rate of interest. If I remember the contract correctly, the rate is four and a half per cent.

It is opposed to general co-operative policy to seek special government assistance. The co-operatives, as a

matter of principle, wish to stand on their own feet. Further evidence of this feature comes from the province of New Brunswick. A problem of marketing arose, which required a solution; Through the joint efforts of the government and the co-operatives a solution was found, and the government as its contribution to the solution did make certain grants, but it is significant that at the earliest possible moment the co-operatives, of their own volition, asked that the grant be discontinued, as they neither required nor desired any further governmental assistance. (McEwen - XI - 4100). In that case the co-operative took over the marketing work which had been started and financed by the Dominion Department of Agriculture (XI - 4103).

Criticism has been levelled at the province of Alberta for guaranteeing the loans of co-operatives under the Co-operative Society Guarantee Act, but again it should be pointed out these are guarantees and not grants and are advanced in the public interest. The fact that governments do, by way of loans, and to some extent by way of grants, give assistance to co-operatives, is surely not an argument against co-operatives. It is an argument in their favour because it shows that governments representing all the people, see the advantages that flow from co-operative activity.

Membership: One essential feature of a co-operative is that the individual member is and must remain sovereign (McEwen - XI - 4126) -- every member has a stake in the enterprise. Every co-operative must relate back to the individual as a producer or a consumer. He must be the original member (Turner - IV - 1097). Because of lack of uniformity in the law and practice relating to co-operatives the proper method of becoming a member has not been too well established,

One experienced witness considered that there should be a written application in all cases (Savage - VII - 2425) but legislation, for example in Saskatchewan and New Brunswick, provides for patrons with a certain volume of business automatically becoming members with the approval of the board of directors. These provisions were made before any question of income tax arose and thus recognize use as the real basis for membership. The onus is on those who claim this basis is unsound to advance good reasons why it should be changed. A great deal has been said before the Commission about the rights of minorities in a co-operative but no member of a minority has come forward and made any complaint. Witnesses have stated that they have never heard any objections from any minority member at any time and that if a minority member is in need of withdrawing his deferred dividends and shows good cause his request is acceded to. Mr. McKay with all his experience swore that there had never been a complaint about money being held back and he gave examples of where in emergencies members found that dividends deferred on their behalf were available when most needed (McKay - IV - 1310). In criticizing the majority control which operates in a co-operative it appears that the critics entirely overlooked the fact that majority control applies in a democracy over matters of life and death while the control extends only to financial matters in the case of a co-operative. The critics have also had much to say about the delegate system of voting. This is one of the well-known principles of the co-operatives -- that there shall be no proxy voting. There is obviously a very important distinction between the system of proxy voting, which is followed in many

profit companies, and the system of delegate voting which has evolved in the development of co-operatives. An attempt has been made to show that all co-operatives are not true co-operatives where there is delegate voting but this is the exact manner in which the Rochdale co-operatives have expanded into the wholesale and manufacturing field, and some of the larger Canadian co-operatives have followed that pattern (McKay - IV - 1384). The delegate voting is the most practical method of democratic control that can be devised. The delegate is democratically elected to represent a group of members in a similar manner to the case of a member of the legislature or municipal council who is elected to represent voters who can only carry on the business of the government through elected representatives. The delegate feature of voting is linked very closely to the principle of unlimited membership to which great importance has been attached by many witnesses including Croteau (XI - 4048).

Non-member business: Many witnesses representing large and important co-operatives have admitted that where a co-operative does business with non-members that non-member business should be taxed (McKay - IV - 1291) Rankin, - V - 1484) (McEwen - XI - 4172) (McIntyre - XII - 4347).

It is proper to call the attention of the Commission to reasons which have been advanced in favour of allowing a certain percentage of any non-member business to be exempt. It has been pointed out in western Canada, also in Ontario and the maritimes, that due to wartime regulations co-operatives are compelled to sell goods to all persons whether members or not. This has been established by many witnesses including Savage (VII - 2413). It has also been pointed

out that the co-operative is sometimes the only distributing point in the community and that it is a matter of necessity that non-members should be supplied with essential goods (VII - 2414).

Mr. Wilson of the Davidson Co-operative pointed out that there was some difficulty in keeping a record of trivial transactions of fifteen cents or less -- that incidental business done with non-members is often done at a loss and that it is not reasonable that members should be taxed on the business on which no profit was made with non-members. It is also pointed out that in 1944 the so-called trivial transactions with both members and non-members of the Davidson Co-operative numbered 100,000.

I think I pointed out that behind the request for the exemption of non-member business certain evidence was produced before the Commission, and it might be better to deal with that at the time we discuss the recommendations. Just on that point I might say this, that you will observe that there are recommendations that are not uniform. From one province or from one group you will get one recommendation regarding a matter of this kind. From another group, with different experience, you will get another recommendation. Those are the facts; that is the situation, but we have to take those recommendations, and my proposal is simply to show the reasons behind the request that is made in those cases. Then with those facts in mind the Commission will be able to say what is the right thing to do. One recommendation may go too far in one direction; another may go too far in the other direction, but those are the facts, and we have tried to bring out the facts so the Commission may have a look at them. However, I shall be glad to return to this

membership subject later, if you wish me to do so.

Then there are other related matters:

The following quotation from the late Josiah Stamp appears in Volume IV, page 1163 of the evidence-- this was relied upon, you will remember, by a number of organizations--

"If the state wishes for national reasons to benefit or assist certain trades I think in general the worst method is by discrimination or differentiation in taxation."

There is an opinion which on its face was regarded as very important as against the co-operative case.

This is not a matter of assisting certain trades at all-- this is a matter of giving encouragement to people who are endeavouring to help themselves and to allow a technique which operates in a manner that is practical and equitable to operate to the best advantage in a variety of ways. Co-operatives are not for the purpose of benefiting any trade but are simply instruments in the hands of people who need them in view of their circumstances.

There has been a good deal said about profit businesses, if they saw fit, converting to co-operatives. Even if this were possible it has been indicated that most owners of profit businesses do not wish to share responsibility or returns or the general administration of the business (Puckering - V - 1642). Those engaged in profit business choose that method of operating and are willing, in so far as the evidence does, to carry on business and meet all the requirements of the law with regard to income taxes. It has been alleged that co-operatives because of the advantages they have have been able to build up reserves and that the damage has already

been done (Puckering - V - 1648). This same witness admitted at page 1641 that grain handling had been a profitable business. There was other evidence to show that the milling business had been profitable. It is a fair inference, and no doubt evidence which the Commission has, shows, that the millers and other private interests were able to and did build up substantial reserves before the co-operatives had become established. It is undoubtedly true that co-operatives have built up reserves but in the interests of the preservation of co-operatives as community enterprises to serve a need in the public interest this is necessary and indicates wise management on the part of the co-operatives.

There has been strong criticism on the ground of discrimination but there is no evidence to show that even if there has been discrimination that profit business has suffered as a result.

The revolving fund method of financing has also been criticized and it must be admitted that there is not unanimity of opinion regarding this method even among co-operatives leaders although the consensus of opinion seems favourable. In reply to a question by the Chairman its advantages were stated very clearly by Doctor Croteau --

"It is good in the sense that it keeps the active members owners for one thing, and, in another sense that it provides capital in proportion to use."

I think that is a very clear statement on behalf of those who favour it. It has also been contended that a co-operative, although subject to income tax, would still be able to operate. This is a pretty vital matter. The evidence shows that this will probably lead to the reduction of the margin between the cost of goods and the selling price,

in the case of consumers' co-operatives, and between the initial and total price in the case of producers' co-operatives. By reducing these margins the financial position of the co-operative may be jeopardized due to a short-sighted view on the part of the members. Such reductions will be made only if some action is taken which is regarded as inequitable by persons engaged in co-operative enterprises where an overcharge or an underpayment is not important as long as the surplus is returned to the patrons in proportion to their use of its services. The narrowing of margins would eventually lead to co-operative failures and it is submitted it is not in the public interest, in view of the evidence, that any action should be taken that will tend to threaten the continued existence of co-operatives. The evidence is that if prices were cut the growth of co-operatives would be affected adversely and the percentage of casualties would increase. (McEwen - XI - 4176). This would disrupt business generally leading to confusion and loss of revenues. In the long run the members of the co-operative would suffer because there would not be the accumulation of credit to members which in a co-operative tends to stabilize their personal incomes.

Of course there is the other point that I should stress, and it is this: that if the co-operatives reduce their margins, then competing business would also reduce its margins to follow suit, and profits would be decreased. At the same time, in reply to those who argue for taxation, the taxation would be decreased, but business would be disrupted. That is why some of the witnesses said that in a co-operative they follow the standard market price -- that is, in a consumer co-operative -- and in a producer co-operative they do in some cases and in others, as you will remember, they do not.

I now come to the third part of my presentation, dealing with the terms of reference. This is a subject of very vital importance, and at the outset I admit quite frankly that it is a very difficult subject. It is one to which I have given a good deal of thought, and I am not sure whether I can be of any assistance to the Commission, but I will try to be.

First I take up "the comparative position of competitors and what is in the public interest": It is worthy of note that in nearly every province in Canada the legislature has seen fit to exempt cooperatives from the payment of income tax. The following are the references in the respective statutes granting this privilege:

<u>Province</u>	<u>Income Tax Exemption</u>	<u>Citation</u>
British Columbia	(not covered by legislation)	
Alberta	Almost identical with 4(p)	R.S.A. 1942 c. 48 sec. 4(m)
Saskatchewan	"The income of associations incorporated or registered under The Co-operative Associations Act or The Co-operative Marketing Associations Act and not operating for the profit of the association."	R.S.S. 1940 c. 54 Section 4(f) R.S.S. 1940 c. 54 Sec. 4(f)
Manitoba	Almost identical with sec. 4(p)	R.S.M. 1940 c. 209 Sec. 4(p)
Ontario	Almost identical with 4(p)	R.S.O. 1937 c. 25 Sec. 4(p)
Quebec	Same as 4(p)	R.S.Q. 1941 c. 86
New Brunswick	(Not covered by legislation)	
Prince Edward Island	Almost identical with 4(p)	Statutes of P.E.I. 1938 c.10, sec. 4(p)
Nova Scotia	No provincial income tax co-operatives exempt under Cap.2 of Statutes of N.S.1939 dealing with corporation taxes.	

You will see that it is pretty uniform all across Canada. Provincial legislatures of all political complexions, in close touch with the people, directing their attention to this matter of taxation and the securing of revenue -- what do they say? They say it is in the public interest and nothing could be more eloquent than that in support of this argument. They say it is in the public interest to exempt them; and we have the evidence, because they have passed the statutes. I suggest that this should be a very convincing argument before this Commission, because it is not on political grounds or anything else; it is right across Canada that we have this situation. The fact that the provinces are not collecting income tax at the moment is beside the point. It shows the intention; it shows government policy right across Canada, and that is the picture.

This indicates very strongly that such exemption is considered to be in the public interest. It should also be noted that in nearly every province, notwithstanding that governments are of many political complexions, special provisions are contained in the statutes of the regulations for the purpose of encouraging co-operative development. This is a further indication that the encouragement of co-operatives is in the public interest.

Take the three western provinces again. Go to Alberta, and what do you find? You will remember the evidence of Mr. Fitzpatrick. Go to Regina; go to Winnipeg and so on, across the country, and you find what the governments are doing actively, governments of all political parties.

In almost all provinces the registration fee for the incorporation of co-operatives is nominal compared with the fee for incorporation of profit companies. That is another encouragement.

In nearly all provinces, with the notable exception of British Columbia, the government provides inspection and supervision services for co-operatives. According to the evidence it is especially sympathetic and helpful in some provinces. It is only in recent years that this service has been offered in the province of Ontario. It is very extensive in Saskatchewan, Alberta, Quebec, Prince Edward Island, New Brunswick and Nova Scotia.

In Alberta, the branch charged with this work actually helps to organize and gives supervision. It should also be noted that financial assistance is given to co-operatives by the government under the statutes, for instance, The co-operative Marketing Associations Guarantee Act and The Frozen Food Locker Act (Fitzpatrick- II - 482.)

In Saskatchewan a separate department known as Co-operation and Co-operative Development was set up with the unanimous approval of the Legislature at the last session. (Turner - IV - 1106). All governments for forty years have given very great assistance to the co-operatives. (Turner - IV 1094 & 1120). Supervision of this kind is regarded as of very great benefit (Turner- IV - 1122). Community halls incorporated under The Cooperative Associations Act are exempt from municipal taxation.

In several provinces, including Saskatchewan, Manitoba and Ontario, the use of the word "Co-operative", is protected by legislation.

In certain provinces, including British Columbia and Nova Scotia, legislation is inadequate. It is worthy of note, however, that in Nova Scotia, Co-operative Housing Associations were given partial exemption from municipal taxation according to the evidence of Joseph Laben.

On that point I would respectfully suggest that the

Commission give consideration to exempting co-operative housing associations, because I am not at all sure that section 4(y) is adequate. It is adequate to cover dominion financing, but not provincial financing. That is one point.

With regard to the foregoing privileges which the state gives to co-operatives, it must be considered that co-operatives by their very nature are entitled to those privileges and advantages. It is fair to assume that the provinces, in close touch with the people, and realizing the voluntary efforts exerted through co-operatives relieve them from certain compulsory requirements imposed on others who do not make that voluntary effort. Combined with this benefit it is fair to assume that there is a lack of ability as evidenced by the fact that the people in cooperatives have banded themselves together in a venture of self-help.

It has been contended repeatedly that profit business in similar lines has suffered because of the competition of co-operatives. This claim has not been substantiated. Several witnesses, representing profit interests, were unable to show that they had not made progress in recent years after providing for all income taxes. In complaining about co-operative reserves, the fact was overlooked by profit companies that in the past there had been ample opportunity for many of those appearing or represented by counsel to build up adequate reserves which are now available before heavy income taxes were imposed.

Witness for the Independent Dairies in Saskatchewan admitted he did not know of any customers his company had lost to co-operatives (Carruthers - IV - 1168) and at page 1170 he admitted to one of the Commissioners that notwithstanding heavy taxes the creamery had improved its position during the period 1939 to 1943.

In actual examples, shown in various briefs, profits remained satisfactory. The only merchant heard from failed to show loss through co-operatives. (Wyman - IV - Q402).

Not one case of hardship or loss through co-operative competition has been firmly established. There is always this fear, this alarm, that seems to have bothered people, as to what was going to happen. But take the case of the fish companies. They are very substantial. They are companies representing \$20,000,000 in capital. They put up a very strong case against the little Prince Rupert fishermen. They did not say one word about having suffered. Not one dollar was lost, as far as the evidence showed, directly. The suggestion is that the evidence has not been convincing.

On the contrary it is fair to suggest that the benefits of co-operative activity in a community have been reflected in improved conditions for profit business. (MacDonald XII - 4470). Canadian Seed Trade Association claimed hardship on members, but in the only example given Canadian and export business in three years had grown from \$1,000 to \$50,000. That was the example given.

A record or index relative to earnings and sales of profit businesses will be available to the Commission and we suggest that there will be nothing to indicate profit business is in jeopardy or any serious situation as a result of the existence of co-operative enterprise. Co-operatives are interested in necessities and handle a very small percentage of the total Canadian business.

The co-operative is not doing any disservice to profit business or the public when it displaces that which is inefficient and does not bring a reasonable return and does not provide a good service. Profit business is not

on sound ground when it takes a contrary position as it did in the Wholesalers Brief.

"Any economic or other trend of development which endangers the great mass of citizens comprising the Services Industries or any substantial group, class or division of them in their capacity to earn their livelihood or remain in business holds little promise of anything but economic disruption and disaster." (Evans - VIII - 2767).

This is another way of saying that no matter whether the overhead of carrying on the business of the nation by a certain class is too high or not it must not be changed irrespective of what the condition of all the rest of the people may be. The problem becomes apparent when we turn to the evidence from Alberta.

In the district of Andrew, Alberta, before the co-operative was established there were nearly twenty stores in operation but the service was not good as there were so many stores that the range of goods carried had to be small. All of these small stores were in business trying to make a few dollars. The people were not satisfied with the service and established the co-operative and since that time about five of the small stores have gone out of business (Rominiuk - III - 1054).

One has only to observe conditions in many towns of western and other parts of Canada to see the unnecessary duplication of services -- several small stores, several service stations, with an overhead out of all proportion to the number of people to be served. In Saskatchewan the evidence is that there are 10,097 stores, which would mean

about one store for every ninety persons. (McQuarrie - IV - 1215). That is the evidence; and the statistics will show that the people who operate these businesses have amazingly low incomes, \$1,000, \$1,200, and so on. Those are the operators of the private businesses. It is surprising.

Statistics generally show the average net income of independent retailers is very small and therefore a doubtful source of revenue for income tax purposes. One merchant stated that in 1942 he had, after being in business for about twenty-six years, operated at a loss and in 1943 his income tax had been about \$100. In 1944, after having sold to a co-operative and being in receipt of a salary, his income tax was \$180, and his evidence indicated that he considered his position was preferable to what it had been as an individual merchant. (Bagnall - V - 1511).

I do not want to rely too much on one witness, but I suggest that if this claim which is made could have been substantiated, about this great turn-over and loss of revenue, where is the evidence? That is what I ask. The only evidence we have is this. I do not want to place too much reliance on this, but I say, where is the evidence? I ask you to take the statistics that show the incomes of these small merchants, the people who are in competition with the co-operatives, and I suggest you will find -- I do not know what you have found, but I suggest you will find that the revenue from small retail merchants in the Saskatchewan towns, by way of income tax, is not very great, and probably would not be any more, at all events, than the income tax from the management of co-operatives in similar circumstances. I say where is the evidence to the contrary, if I am not correct? We got what evidence we could. Where is the evidence on the other side?

The overhead is obviously increased by advertising. It should be borne in mind that co-operatives deal in necessities, and, as has been pointed out by the witness Bagnall, advertising of the ordinary kind is not usually necessary in the case of a co-operative.

Other interests submit that the tax inequality seriously imperils our economic structure (Bickle - VII - 2299) and that the great increase in taxation makes the position all the more serious (Macdonell, C.M.A. - VII - 2313). The basis of this so-called threat is one for consideration. There is evidence to indicate that the real objection and the real issue raised by those who oppose the co-operatives is not so much the tax privilege as the right to do business without making a profit. On behalf of the powerful Canadian Manufacturers' Association this statement was made during the examination --

"If it can be shown to the satisfaction of the Minister that prices have been reduced with a view to eliminating profit, it seems to me he ought to have authority to disallow that,"
(Macdonell - VII - 2324).

Under close examination he insisted that the Minister should be given discretion. This raises the issue clearly as to whether people who cannot afford to supply themselves through a profit system are to be denied the right to serve themselves through a non-profit or cost system. That is the issue which is being fought here. Your lordship said this morning that there is a fight. There is a fight, and that is the issue. It is not taxation. I do not want to put it in that way. It is not wholly taxation. There is more involved in it than that.

The real issue is : are the people of this country who are in necessitous circumstances to have the right to do business without making a profit?

THE CHAIRMAN: There is no question about that, Mr. Francis, at least not in my mind. Anyone has a right to carry on any legitimate business in this country.

MR. PARKER: I do not think any brief has ever suggested anything to the contrary.

THE CHAIRMAN: I would be the last one to say that any form of business which is legal should not be carried on.

MR. FRANCIS: My learned friend says he cannot recall any brief which suggested anything to the contrary. I have just read from a brief which suggested something to the contrary, and it is before my learned friend right now. What could be clearer than that? We are talking about the right to carry on business without making a profit, and that is what I said.

MR. PARKER: But that is not what the brief said.

THE CHAIRMAN: I do not know how long one would be able to carry on business without a profit. Our bankruptcy courts have been full of these people.

MR. FRANCIS: But the cooperatives have found a way of doing it, almost.

MR. ELLIOTT: My understanding of that statement is that the taxing authorities ought to have discretion to disallow certain expenditures as expenses in computing income tax, and not that the taxing authority should have discretion to disallow a particular form of activity.

THE CHAIRMAN: Yes, I think that is it.

MR. FRANCIS: I have examined that fairly carefully, and I will be glad to examine it again:

"If it can be shown to the satisfaction of the Minister that prices have been reduced with a view to eliminating profit, it seems to me he ought to have authority to disallow that."

I do not know what that means if it does not mean what I say.

THE CHAIRMAN: To disallow the deduction; yes.

MR. FRANCIS: That is, disallow the thing that makes it non-profit.

THE CHAIRMAN: The minister or his representative disallows a good many things that people would like to put in as deductions but which they do not get away with.

MR. FRANCIS: Professor McDougall was faced with the same problem in his discussion, and he said it was very difficult when you come to try to curb this desire to do a non-profit business. However, there is the evidence, and I thought I should call it to your attention. I may have misread it, but that was my understanding.

A similar point of view is indicated on behalf of a retail merchants' group. Note the following quotation from the brief:

"It is submitted that the time is almost here where the tax burden will reach that magnitude in this country when exemptions will have to cease. When that event does come about and co-operatives are then taxed like other corporations or other individuals, and if in the past such co-operatives found that certain tax exemptions were necessary for their continued existence, then when co-operatives are taxed uniformly as other concerns they will surely disappear when their

special favours cease." (McQuarrie - IV - 1225).
Attention is drawn to a question by one of the Commissioners and the reply:

"Q. Your point is that as you see it the problem emerges when these farm groups begin to engage in the purchasing of supplies, that is when they become trading concerns, is that your point?

"A. Yes, no one took exception to them in those days when they were selling." (McQuarrie - IV - 1244).

The following indicates the limitations that would be placed on a so-called true co-operative:

"The only true form of consumers mutual or co-operative endeavour is that in which a group of individuals provide funds for the bulk purchase of a specified commodity in the proportions in which they propose to divide the commodity. The commodity is then purchased and distributed in such proportions. If funds have been provided in excess of requirements such surplus is divided among the contributors in the same proportions. In such a case the term "surplus" as applied to such excess funds is fitting and the term 'profits' would be inappropriate. Immediately upon purchase each member of the group can readily identify his share of the commodity and earmark and control the destination of his share of the surplus funds. When any departure is made from this simple formula the operations of the group cease to be mutual or co-operative in the true and strict sense." (Carson - VII - 2339).

And the following reply was given to the following question by a witness in support of the same brief:

"Q. Is your argument based on the first sentence on page 15 that a consumers' co-operative when it expands to a certain degree can no longer remain a co-operative, that the mere fact of expansion destroys the co-operative principle, is that the idea?"

A. Yes, I think it is so." (Hougham - VII-2370).

And a further question was put to Mr. Carson at page 2371-

"All I am asking was whether the transition to big business principles brought about a change?"

"Mr. Carson-- "Yes, that is our argument, they have changed. They have changed

from the true principle as we have tried to describe it."

Any reference to Rochdale principles and the intention of parliament, as expressed at the time of the enactment of 4(p), shows that there was no intention to limit a co-operative in the strict manner indicated by the foregoing passages. The Rochdale stores not only handled many commodities but developed into a very large business serving many millions of consumers.

Surely on the basis of history, and common sense, any group of persons however large who provide capital for the purpose of providing themselves with goods and services at cost in the most practical way which can be devised is a true co-operative. In a sense there is no large cooperative, it is a case of a lot of people doing one or more things for themselves without profit.

What characterizes a co-operative as such is its function and purpose.

It is only common sense for those who cannot afford

to pay a profit or who do not wish to pay a profit to adapt the Rochdale principles to meet human needs in the same manner that other British institutions have been adapted to meet Canadian needs. If any group wished to do business without making a profit it should be permitted to do so. It may in theory be possible to keep separate accounts for every separate item as suggested by Mr. Carson (VII - 2432) but it would not be practicable and is not necessarily done by co-operatives following Rochdale principles. (VII - 2435) Where the commodity overcharges or underpayments differ widely as in a cooperative wholesale, commodity dividends are paid on a basis giving an approximation to exact equity on a practical basis in the matter of patronage dividends. There is evidence from Saskatchewan, Ontario and New Brunswick on this point.

A great deal was said about certain departures from so-called true co-operative principles. In many such cases co-operatives were formed without much advice and without suitable legislation such as later co-operative acts have provided. Examples are the Sussex Cheese factory, The United Farmers Co-operative Company and the Canadian Wool Growers. Step by step as it became possible these organizations, which were intended to be co-operative, gradually acquired the co-operative form. When these co-operatives are examined after the event with a critical eye it is possible perhaps to detect flaws in their co-operative structure.

Now I deal with "evidence of general benefits in the public interest": It has been reported from Sweden and other countries, where there has been extensive co-operative development, that co-operatives have served as a yardstick for prices and therefore as a check on exorbitant prices. There

is some evidence that in Canada the same is true. Note the evidence from the Oxford County Co-operative. (Nephew - VII - 2441).

In the district of Timmins in northern Ontario the witness was satisfied, from an examination of the statistics of the Department of Labour in which prices at North Bay and Sudbury were compared, that the co-operative had an influence in keeping prices at a moderate level. (Haapanen - VII - 2556). The same witness pointed out that the co-operatives in his community of Timmins increased purchasing power among the people where it was badly needed. Since 1930 the association has distributed \$100,000. (Haapanen - VII - 2526).

According to the evidence the first benefit derived from a co-operative is financial, but this leads to many other benefits (McEwan - XI - 4147). A co-operative takes people off relief and puts them in a position where they can pay income tax. (Mrs. Simpson - I - 74).

(There is a great deal of evidence showing the large amount of patronage dividends distributed in scores of districts throughout Canada to people badly in need of them. Although that may be regarded as only one of the important results, the others have been stressed by many witnesses. Even in certain districts where there was no legal obligation to distribute dividends to anyone but shareholders, in the interests of equity, distributions were made. Examples are the Ontario Association in which dividends were distributed to all customers. (Charlton - VII - 2460). The most striking illustration is perhaps the Sussex Cheese Factory. There, for more than twenty years, distribution has been made on a co-operative basis without any obligation to do so. The surpluses distributed have amounted to \$446,393.53 (Whalen-

XI - 4228).

It is well known that one of the Rochdale methods is conducting business on a cash basis. Evidence before the Commission indicates that the co-operative has been instrumental in introducing the cash method which has been advantageous to the community. (Stauffer - VII - 2469).

The same is true at Baddeck (MacDonald - XII - 4464).

The same benefit was experienced in Prince Edward Island (Croteau - XII - 4049).

The evidence is uniform that working together a community co-operative develops a good community spirit and raises the standard of living in a community. Illustrations - Orangeville (Watson - V - 1443). (Kandahar - Johanson - V - 1452).

"When we first came here as pioneers we had a little trouble among the different nationalities but in the last few years, since we have organized and have been working together, we practically have no trouble. We don't remember that there is any but one nationality, and in fact in our community we live together as one family."

A consumers' co-operative is regarded as being the only type of organization in a community in direct touch with the consumer who is everybody. (Chown - VI - 1922-24).

Co-operatives have been instrumental in making rural Ontario more attractive. In many parts of Ontario - Oxford County (Nephew - VII - 2438). (Charlton - VII - 2460).

In the opinion of Dr. Croteau, many people in Prince Edward Island were given new hope for the future through the achievements of their co-operatives (IX - 4018).

According to the witness O'Brien, as a result of mutual

confidence and experience of working together the people were in a position to plan for the future effectively, something that every government of every country has been advocating. This witness gave a number of concrete examples of what the people of the Morell district were definitely planning to do because of the confidence they had gained in each other by struggling and working together for a number of years. (O'Brien - XI - 4071).

Another matter in the public interest is the fact that co-operatives have, in certain cases, taken a lead in bringing about better conditions for employees. According to the evidence of Haapanen the Timmins co-operatives took a lead in permitting shorter hours for employees and they still give longer holidays than the majority of the independent profit stores in the community. There are many illustrations showing how the co-operative has become the community centre. In one town, Lloydminster, the co-operative has established a community meeting place on the mezzanine floor with a lounge and reading room. All conveniences are placed at the disposal of the general public. This is most unusual for a small town store. (Davidson - IV - 1405).

In Prince Edward Island a co-operative is regarded as a group effort designed to build individual and community responsibility (Croteau - XI - 4002). By emphasizing the importance of cash business and bringing about savings it has enabled people to get out of debt. The people have been better able to pay tax because of the co-operatives. (O'Brien - XI - 4078). In the opinion of Dr. Croteau it has given the people greater confidence in the future (XI - 4018).

Evidence from New Brunswick is very convincing on certain

points. In the French speaking district self-help and protection are said to be main motive for establishing and operating a co-operative (Soucey - XI - 4187). According to Mr. Soucey, the poorer class in the community found that they could enjoy life a little more by this method of self-help and he attributed better homes, larger acreage, increased herds and better crops, in certain areas in northern New Brunswick, to the co-operatives. (Soucey - XI - 4193-4194). As an example he mentioned insurance protection. Prior to the establishment of the mutual, the cost of insurance, where it could be obtained, was \$30 to \$40 per thousand for three years and after the mutual had come into operation the cost was reduced to less than \$10 and full coverage was given.

In other parts of the maritimes it was found that the development of co-operatives had relieved the government of contributions which it had been making. For instance, the co-operative took over certain functions which had previously been performed by the government, and, in due course asked that grants made by the government to the co-operatives be discontinued. (McEwan - XI - 4149). The evidence established that co-operatives provided better media through which the government could carry on its work.

In Nova Scotia the witness McIntyre, who had wide experience for many years throughout the province gave it as his opinion that co-operatives serve low and middle income groups and operate as machinery for the more equitable distribution of the national wealth (XII - 4283). It prevents people from becoming relief charges and therefore a burden on the government (XII - 4293). This was corroborated by the evidence of MacKichan who showed that from the establishment

of co-operatives higher prices were paid for fish, the fishermen and goods were supplied at lower prices (XII - 4000).

The evidence of Dr. Croteau as to debt was corroborated by Father Forest. Father Forest also speaking from nearly thirty years' experience among the fisher folk of Larry's River swore that through working together with co-operatives the people had more confidence in themselves, there was better understanding in the district and due to better revenues economic conditions had improved (XII - 4436). Giving evidence regarding the adjoining English speaking district, the witness Sangster stated that the people of his district by working together had reached complete understanding. (XII - 4421).

A more important feature perhaps was emphasized in the evidence of MacDonald, O'Brien and others. It was found that when people in a community discovered that with working together in one venture what they could do to improve their lot they then undertook further ventures and step by step moved forward in an economic and social sense. (MacDonald - XII - 4464). This is supported in other provinces by evidence of intelligent and trustworthy witnesses. See Nephew - VII - 2441, Ontario; Turner - IV - 1108-1114, Saskatchewan (quoting report of investigation into co-operatives); the Mayor of Rossland in British Columbia told the Commission of the good community spirit brought about by people working together and solving the problem through a co-operative. This was achieved through the transportation co-operative as well as other advantages, such as the introduction of safety measures and the very substantial

decrease in the cost of a required service. This evidence fully supports the general statement made some forty years ago by the then Deputy Minister of Labour in giving evidence before a parliamentary committee (VI - 1862):

"Leading economists of to-day, both in England and the United States, men who have not at heart the interests of one class of society as against the other but who look impartially upon economic affairs are, I think, pretty well one in the favour with which they view the co-operative movement as a movement exceptionally beneficial from the point of view of educating the mass of people, from the point of view of enabling the mass of people to improve their own conditions and from the point of view of the general betterment and welfare of the people of the country."

THE CHAIRMAN: I would subscribe to that wholeheartedly.

MR. FRANCIS: That is a summing up of the evidence, after forty years.

MR. VAUGHAN: There is just one point I should like to raise. You have said that the co-operatives have served as a yardstick for prices, and therefore as a check on exorbitant prices. I think it has come out in the evidence, and you so stated to-day, that the prevailing prices are adopted, the prevailing prices being the prices of non-cooperatives. I do not see how that is consistent with what you have said just now.

MR. FRANCIS: Well, take the evidence; take the case of the ling cod liver. The standard price was sixty cents. The producers, through their own organization, were able to show that it was worth \$3.85. That was a check on

the sixty cents, and established the fact that that price was wrong.

MR. VAUGHAN: That is an instance; but I think it came out, largely in connection with consumer co-operatives, that the prices adopted are the prices prevailing for those which are usual in the same locality, and in that case I do not see how cooperatives are the yardstick of prices and the check on exorbitant prices. I remember one witness in Toronto saying very definitely that he followed the prevailing prices, and I asked him how he followed them. He said well, he looked at the advertisements, and they had people checking prices in the different stores, and that they adopted the same prices. I have forgotten what witness it was, but that will be in the evidence.

MR. FRANCIS: The case that occurs to me is the cooperative refinery. When the refinery went into business in the southern part of Saskatchewan, the price of petroleum products was reduced all over the area by, I think, two cents a gallon. That is another illustration from a consumer point of view, so I think the evidence is the best answer I can give.

MR. VAUGHAN: Now the evidence, generally speaking, shows that the prevailing prices are adopted.

MR. FRANCIS: If they are reasonable.

MR. VAUGHAN: There may be exceptions, such as those you speak of.

MR. FRANCIS: The general Rochdale principle is this, to follow prevailing prices if those prices are reasonable. If they are not reasonable, then a lower price is set and that brings the other price down to what is reasonable.

That is the way it works. Does that answer the question?

MR. VAUGHAN: I do not think it does. You said a while ago that prevailing prices are adopted, so that the general trade will not be disturbed.

MR. FRANCIS: Yes, that is quite true. Prices generally, I suppose, are reasonable, as a general rule. At least I hope they are. If the prices are reasonable, the practice has grown up, and the Rochdale plan has been, to follow those prices.

Very well. The existence of the co-operative, I suggest, tends to keep prices reasonable. But if in an area the people find that the prices are unreasonable, then they do not in practice or in theory follow that unreasonable price but set a new price, as they did in southern Saskatchewan. Then they controlled the price of their competitors, by bringing it down to that level. That is the way it works.

MR. VAUGHAN: Do you think it is the co-operative price that fixes the general level, or that it is the competition between non-co-operatives? Is that not what really fixes the price, not the competition with the co-operatives but the competition between the non-co-operatives?

MR. FRANCIS: I think Mr. Reynolds' book, to which I referred this morning, will throw a great deal of light on that subject. There may be price agreements, and so on; and his book is an investigation into the whole matter. You find agreements to keep up prices. The thing that really brings them down is when people themselves organize a service to find out what it costs them, and use that as a yardstick, and the others come down.

MR. VAUGHAN: When there are price agreements do they not apply to co-operatives the same as to other stores?

MR. FRANCIS: I am not quite sure I understand that question.

MR. VAUGHAN: You said there were price agreements between non-co-operatives, to keep up prices. When co-operatives buy under a price agreement, are they not obliged to keep to that contract as well?

MR. FRANCIS: They may, on the face of it, but actually it does not matter, because with the way they operate they do business at cost because of distribution.

That summing up, made forty years ago by the present Prime Minister, is as true to-day as it was at that time.

I deal now with producer co-operatives: It seems to be assumed by those unfamiliar with producer co-operatives that the only possible advantage derived by the members is an increase in the returns which the producers receive for their products. The evidence is very revealing in showing to what extent producers' co-operatives operate in the public interest, not only in so far as producers are concerned but in other respects; for instance, in the improved quality of commodities brought about as a direct result of co-operative marketing. Apart from quality there is also considerable evidence to show that production is increased through the operation of marketing co-operatives and as a result the national wealth is greater, this means more employment and more revenues directly and indirectly to the National Treasury.

Orderly marketing is one of the advantages clearly established. This was of particular importance in the honey industry as it gave the producers some assurance that they would find a market. (Inkster - VII - 2486).

In certain communities in Ontario the Co-operatives

made orderly marketing of poultry possible. (Hewitt - VII - 2494).

It was important in the livestock industry where, by the establishment of co-operatives, farmers were no longer at the mercy of drovers and handling costs were lowered by one-third. There is the check on the prices. (McAllister-VI - 1937-1940) greater production was brought about (page 1950).

In Manitoba, as in Ontario, poultry production was improved (McLean - VI - 1976). As in Ontario orderly marketing of honey was made possible by co-operatives (Brathwaite-VI - 1997-2002). The same result was obtained in the cheese industry (Prefontaine - VI - 2235).

In Prince Edward Island there was a vast improvement in the poultry industry due to the establishment of grades and standards in production. (Croteau -XI - 4006). Production was improved and increased through the co-operative Creamery at Morell (O'Brien - XI - 4069). Perhaps in New Brunswick the evidence was more striking than elsewhere. The livestock branch of farming was threatened when the co-operatives, in collaboration with the Dominion government came into the picture.

Co-operative marketing resulted in an increase in percentage of top grades from 13 per cent to about 70 per cent. The story is much the same in lambs, livestock and hogs. As soon as the producers obtained a measure of control over their marketing through their own co-operatives they discovered they had not been given fair value for their produce and a complete change was brought about. (McEwan - XI - 4110-4119). The results were even more startling among the fishermen. Prior to the establishment of

co-operatives, fishermen got twenty to twenty-five per cent selects and afterwards seventy-eight to eighty per cent (Sangster - XII - 1445 - 1446). In Cape Breton the improvement in the quality of stock and poultry and the quantity available for market was remarkable. (MacDonald - XII - 4464).

It is of vital importance to primary producers that they should have accurate knowledge regarding the marketing of their own produce. This can be acquired and has been acquired through co-operative action; for instance, in Ontario the honey producers through their association were able to make money available for research work and this led to a method of pasteurization of honey without deterioration. That is in the interests of the consumers. The honey producers in other parts of Canada, for example, Manitoba and Saskatchewan benefited by this knowledge. (Inkster - VII - 2488). It was not until the Prince Rupert fishermen established their own processing facilities for processing livers that they discovered that the private trade paid about sixty cents a pound for livers actually worth over \$3.50. (Deane - XIII - 5026).

The evidence given on behalf of the British Columbia Seed Co-operative showed very clearly the advantages obtained in a special industry of that kind under co-operative control. (Blake - 1 - 26). Even Mr. Steele who appeared in opposition to the claims of the co-operative admitted that the British Columbia Co-operative is a good concern. (Steele - VII - 2580). The same is true in the honey industry where seasons, localities and grades all have a bearing on the quality of the product and no single producer could guarantee a uniform quality. (Inkster - 2487).

MR. VAUGHAN: Do you not think many of those things were developed by non-cooperatives and by government departments?

MR. FRANCIS: Yes; the government departments encouraged the co-operatives to do it.

MR. VAUGHAN: But in reading this you would think that non-co-operatives were adopting the methods of co-operatives, and that the co-operatives were the leaders. Let us say they are, in certain things. Are there not very many things in which the non-co-operatives have been leaders, and many things in which the government has given leadership also?

MR. FRANCIS: Perhaps the best answer is in the legislation, or I hope it is a proper answer. Take the Agricultural Products Co-operative Marketing Act, 1939, which is a dominion act. This is a statute of the government of Canada, and section 3 provides:

"The Minister may, with the approval of the Governor in Council, by agreement with a co-operative association, processor or selling agency, undertake that if the average wholesale price of an agricultural product of any grade or quality produced during the year and delivered to a co-operative association, processor or selling agency under one only co-operative plan, is less than the initial payment together with the actual processing, carrying and selling costs, which shall not exceed the maximum to be fixed under the agreement in the case of each grade of the agricultural product, there shall be paid to the co-operative association, processor or selling agency the amount, if any, by which the initial payment together with such costs exceeds the average wholesale price aforesaid

computed on the amount of the agricultural product of such grade or quality so delivered! ! ! ! !

Foll There is the government encouraging, by direct action, the co-operative marketing of products. There is the evidence of it, and I suggest that these voluntary co-operatives, started on their own initiative and operated by themselves, are doing to a great extent what the government is willing to finance.

Put it in this way: the best people to improve the product are the people who produce it. And that is the point; and in the producer co-operative the people who control it, the people who can make suggestions, who can carry on research and so on, are the producers themselves, not some distant merchant or some distant businessman. It is the people who are right on the ground, and that is my argument.

MR. VAUGHAN: Are there not producers on the ground who are not co-operatives?

MR. FRANCIS: I do not quite understand that. I am speaking of primary producers.

MR. VAUGHAN: You say the people on the ground are the people to develop these things. What I asked is, are there not people on the ground who are not co-operatives but who have the same knowledge and are able to do the same thing?

MR. FRANCIS: You will remember that Professor Reid pointed out that every other group was organized except the farmers. You have the individual producers, it is quite true, but they are not able to bring about expensive processing plants; they are not able to take advantage of technological improvements, and so on, individually. So under the co-operative method the individual farmer is able to build a slaughter house or a honey pasteurization plant, or something

of the kind, and he pools his resources and does it collectively. I submit it is in the public interest to encourage that.

MR. VAUGHAN: Would you not say the line elevators, for example, were able to do that?

MR. FRANCIS: I say that the primary producers, if they have control of these facilities themselves, can do it better than an outsider. That is what I say.

MR. VAUGHAN: I understand that is your claim.

MR. FRANCIS: That is my submission.

MR. VAUGHAN: But I have an idea that some other people think differently, so we can let it go at that.

MR. FRANCIS: And in support of my submission I point out that the government of Canada encourages that sort of thing, the government representing you and me and all the people of Canada. That is what I am trying to establish.

MR. ELLIOTT: Is your point briefly this, that they can adjust their products to their markets better when they have their own representatives in their own markets and can control the product right through from the beginning until it is sold in that market?

MR. FRANCIS : That is one point, and I quite agree with that; but I think there is something beyond that, if I may say so. You see, some of us have been brought up among these producers. One of them will think of some improvement he can make in his product; a better way of killing, and so on. He passes that on to his neighbour, and they exchange ideas,

Take this matter of the grades in New Brunswick. When they were able to pool their collective knowledge and do a little research, they were able to get from the low into the

high grades. That meant better returns to them, and it meant a better product on the tables of the consumers. That is the point. It is because they exchange views; they discuss, and experiment and explore. That is my submission.

MR. ARNASON: Just in connection with the point mentioned by Professor Elliott, if a group of producers organized a co-operative for the purpose of marketing a particular product and, due to poor quality the returns were inadequate-- well, if they have organized for the purpose of marketing that product themselves, and the returns are still unsatisfactory, is not the tendency for them to realize that they can only blame themselves for that poor quality, and would that not tend to make them more susceptible to advice, perhaps from government departments, as to how to improve their product, because in a case like that they could not blame anyone else for the poor return? I am just asking you that question. I am not expressing an opinion.

MR. FRANCIS: I think that is correct, and I think we have some confirmation of that from private industry.

I should like to point this out also, my lord, that in the evidence given by Mr. Morrison on behalf of the First Ontario Packing Co-operative at Barrie, he pointed out that one of the leading packers in Canada, in their annual report to their shareholders, had mentioned the advantage of co-operative packing plants, for the reasons mentioned by Commissioner Arnason. We got that seventeenth annual report of Canada Packers Limited, and this is what it says at page 13:

"Every packer would welcome the development of co-operative plants. Only one exists at the present time -- the First Co-operative Packers, at Barrie, Ontario. It is unfortunate that there is not at least one in each of the chief live-stock-producing provinces. Such plants would be sources of information regarding the facts of the industry which farmers would accept without question. The existence of a number of co-operative plants would lead to **greater** measure of understanding between producers and packers than has ever existed in the past.

"However, the establishment of co-operative plants would of necessity be a slow development. The reason lies in the highly competitive nature of the business, and the fact that the difference between profit and loss is a small fraction of a cent per pound. As farmers became aware of the risks of loss on the one hand, and of the very low margin of profit on the other, the desire to launch co-operative plants would be less keen."

Here is the point. Canada Packers say they are quite willing for co-operatives to find out, by experience and by experimentation, what is the situation, and that they would welcome the establishment of these plants because then the producers would have an understanding of the situation. I think that is one of the big points, that only then the producers get an understanding. The producers say these people are making huge profits, that the packing plants are taking more of their money than they should, and it all leads to resentment. When you start going into

the thing yourself you learn a lot of things you did not know the private industries had to put up with, and I think it would lead to good will and understanding in this country if we had more of that developed. We cannot learn in any other way. Some people make all kinds of loose statements about what private business and big business does, and the huge profits they make; but when they go into it themselves they learn the risks that have to be taken, they learn the tremendous responsibilities that have to be faced, and so on. That is a good thing.

MR. VAUGHAN: I think that is in accord with general opinion. I think McLean and many others in big business think a co-operative is all right in the field, that it serves a good purpose. I do not think there is any objection on that point.

MR. FRANCIS:

In the maritimes it was found that one of the great advantages in producer co-operatives was the education of the producer himself, the incentive given him to produce a high quality product. (Croteau - XI - 4009).

There is, of course, a great deal of evidence retarding the increased returns. Some of these spreads were startling, as in fish. (Croteau - XI - 4064) (Sangster - XII - 1445) (MacKichan - XII - 4000, 4008 and 4009) (Hewitt - VII - 2494) (Clark - VII - 2500). Mr. Clark reported that \$200,000 returned to the Haldiman district to co-operative enterprises had meant a very great deal to the people of the community, and he and other witnesses emphasized the fact that the operation of the co-operatives not only brought about greater returns to the people who were members of the co-operatives but by setting a standard they had resulted in better returns

to those producers who were not members of the co-operatives but were producing in the community.

Witnesses pointed out that in the production of manufactured goods it was possible, through the aggregation of wealth and having accessible trained persons, to take advantage of better methods, but that individual producers with regard to the products which they produced could only do this through the combined action and that the co-operatives had afforded the best method of doing this which so far has been devised. Higher returns were reported by many other witnesses (Braithwaite - 6209). It was clear from the evidence that many primary producers regard their co-operatives as simply extensions to the farm plant and not as a separate business at all. This attitude insured a personal interest in the operation and improvement of the co-operatives.

My next point deals with educational advantage: Witnesses appearing in opposition to the claims of co-operatives on occasion tried to minimize the importance of the experience, knowledge and training gained by members through the operation of their co-operatives. Possibly this attempt was made because of a misunderstanding of the nature of a co-operative or lack of knowledge of the tremendous amount of personal effort that is put into the establishment and conduct of co-operative ventures of various kinds. Those who really know and who gave evidence before the Commission tell a very different story.

In the co-operative method practice and theory are combined and this is one of the striking characteristics of the co-operative technique. This was a point stressed by witnesses who had come from other lands. One witness said in effect -

"We learn to help ourselves in one way and then we undertake something else, in that way we are taught rights and responsibilities." (Haapanen VII - 2526)

"The co-operative method is brought by people who have had experience in other countries and we gain from their advice and experience"

(Haapanen - VII - 2530).

The evidence supports the statement made by Professor Marshall (VI - 1843):

"The co-operative movement 'sets itself to develop the spontaneous energies of the individual while training him to collective action by the aid of collective resources and for the attainment of collective ends'".

To sum up a great deal of evidence on this point it can be said that the people in a co-operative learn by doing, and one feature of the education is that a co-operative seems to be the only satisfactory method by which people can actually learn the truth about the goods they buy and sell as to quality or otherwise. Some indication of the interest of members in their co-operative is gathered from the evidence of Mr. Turner of Saskatchewan. He reports that thirty per cent of the total membership was in attendance for the year in which he reported (IV - 1116). As an example, in the Codette district at the last annual meeting 178 out of 343 members attended the meeting and the practice is, in that district, to invite the teen age boys and girls to attend all meetings. (Mills - V - 1454).

As the evidence clearly shows, great emphasis is placed on education in the maritime provinces where preliminary study,

often for long periods, is undertaken before a co-operative venture is launched (O'Brien - XI - 4068). This is also true in Saskatchewan where an annual co-operative school is held at the University of Saskatchewan (Mills - V- 1454). In Manitoba a great deal of attention is also given to co-operative education.

I now deal with "Taxation in the public interest":

Under the terms of reference the Commission has been asked to report in so far as the same can conveniently be done all facts which appear to them to be pertinent for determining what would in the public interest constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act 1940 to co-operatives, and the Commission is also asked to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest.

I have tried to indicate the advantages that the local communities derive from the co-operatives, and to suggest some of the things that were in the public interest. I now have the problem, and it is a difficult one of trying to tie this all down to taxation, because that is the real point. It is not good enough for me to say this is a fine thing, and this is advantageous, and all the rest of it; I must do better than that. While co-operation may tend to develop a sense of personal responsibility in individual affairs, and so on -- that is all to the good, but I have to go beyond that, I think, or at least I believe you are interested in questions that lie beyond that, in bringing it home to the taxation problem.

Just a word of summing up, then. From the evidence it is apparent that in individual cases the existence of

cooperatives has been beneficial to the community, and therefore in the public interest. Considering the welfare of the consumer on the one hand and the advantages which are derived from producers' cooperation on the other hand, there is much to be said for encouraging these enterprises.

But the Commission no doubt deems it necessary to consider the public interest generally. The question may be asked, "What has all this to do with taxation?" In local communities, the advantages of co-operative effort have already been shown to be relevant to the taxation problem. If due to co-operative effort individuals are liable for and able to pay more income tax, that is a direct taxation advantage. If due to co-operatives people do for themselves what the government otherwise would have to undertake, then the resulting reduced expenditure is a direct taxation advantage. It is submitted, however, that there are wider and perhaps more important considerations that have a bearing on the taxation problem.

Economists differ in their interpretation of economic trends. It is agreed that at least since the beginning of the 19th century there have been recurring cycles with wide variations of prosperity and depression. There have been some twenty-five or thirty of them. I have a chart, on which they are shown, and it is amazing to find what has happened in the last 150 years. Just a glance at what has happened gives a fair indication of the misery that has been caused, the loss and the dislocation. We know from our own experience in our own lifetime -- even in my lifetime, during the last few years -- what these things mean.

In view of the history of the last 150 years it would seem as though, unless we do something about it, this has become a permanent condition, which is a very bad thing for the country. There is a good bit of support for the view that emphasis on production rather than consumption has contributed in large measure to these recurring cycles. One of the leading works, Marshall's Principles of Economics, deals with this matter, and I would refer the Commission to pages 526, 710, 711, 713 and 714.

MR. ELLIOTT: What edition is that?

MR. FRANCIS: I think it is one of the earlier editions. It is the edition of 1930; I do not know whether or not there is a later edition. That work calls attention to this point. I can read from it now, or I can leave it for you to read, as you wish; but I would be very pleased if you would take a note of these references.

With our economy organized as it is, there is no reason to suppose that these cycles will not recur. There is no reason to suppose that this same story will not be told again, if the emphasis continues to be on the producers; and my argument is this, that by devoting attention to the reorganization, gradually, on the consumers' rather than on the producers' basis, which is just what the co-operatives are proposing to do, it is reasonable to suppose in view of what the economists say and in view of history that this will tend to do away with these terrible fluctuations that can be attributed, I suggest, in some measure and perhaps in large measure to the fact that our whole economy has been built from a producers' standpoint. These cycles lead to business losses, to individual insecurity, to disillusionment,

and social and economic chaos. Everyone represented before the Commission would welcome even a decrease in these periodic and disastrous fluctuations. There are, it is submitted, only two long-range possibilities in sight, which are acceptable and which offer even a partial remedy. They are: (a) government controls; (b) further co-operative development.

As to the first possibility, we have had some experience with government controls, and the experience of the war years has shown that government controls tend to prevent wide fluctuations. By legislation and executive order production has been controlled and related directly to consumption, that is consumption in the sense of using up the goods. Tremendous advantages have been apparent, particularly in the international field. Governmental controls were tolerated because of the emergency, but this harnessing of the plant of the nation to produce for consumption has brought marvellous results. It was done under government control.

My submission is that people are not satisfied with government controls if there is an alternative, and my further submission is that there is an alternative, or at least a partial alternative in any event, if you put these controls or harness the national plant to the needs of the people by producing for those needs. It is very doubtful that these government controls would be accepted as a permanent peace-time solution, certainly not if an alternative involving the free use of private capital and private initiative can be found; and in the co-operative method you have private capital and private initiative, and you have it devoted to using the facilities of production for the purpose of meeting the needs of all the people, which is what the government

has done under government controls. The government has used the facilities of the nation for consumption, not for profit or anything of the kind; it has used them to meet a need. Unfortunately the need was to wage a war, but it just shows what can be done if you relate production to consumption, and the theory behind the consumer co-operative movement is to relate production to consumption, and that is done in an orderly way. The consumers learn a little bit about distribution. Then they learn a little about manufacturing and making things for themselves, and step by step, in an orderly way, they move slowly forward, and that tends to stabilize and balance the economy.

MR. VAUGHAN: Do you think the co-operatives can control the consumption of other countries? Is that not what has happened in recent years, that the progress which has been made has been due largely to consumption in other countries, not so much consumption in Canada?

MR. FRANCIS: I am sorry; there is too much noise and I did not hear the question.

MR. VAUGHAN: What I say is, do you think the co-operatives can control consumption in other countries? The condition we have experienced in recent years has arisen through consumption on export business, rather than on domestic business. How can that be continued in order to have a period last, such as we are in now?

MR. FRANCIS: I think this is a long-term proposition, but what I am suggesting is that this is a movement that tends in the direction of changing the control from a producer technique to a consumer technique, which would be in the public interest and which should be encouraged; and I am going to develop that thesis. Apart from all the other

advantages I have tried to point out, here is something in a broader field that we should consider, and I should like to develop it and explore it for just a moment.

Bringing it down to taxation, it is suggested that equality in taxation means equality of sacrifice and therefore means apportioning the contribution of each person towards the expenses of government so he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his.

On the other hand, the public interest is best represented by the people fulfilling their own needs in a manner which will benefit the community generally. The evidence indicates that through co-operatives the people have endeavoured to fulfill their needs in a manner beneficial to the community, both from the point of view of production and the point of view of the consumer. It would therefore appear that whatever system or organization of the people that relates consumption to production or production to consumption in the best manner possible should be the ultimate goal of any government, and therefore in the public interest.

What is the best system? Is it for all producers to rush off and produce and build up great stocks, and then divert profits into plants for producing more goods and curtailing the consuming power, with the result that you have a lack of effective consuming power and nobody to use up the goods that are being produced in these enormous quantities? Then comes the depression, and around goes the cycle. But you do not have that in a co-operative, if you give it a chance to develop.

MR. VAUGHAN: You mean you restrict production to consumption; is that it?

MR. FRANCIS: You relate it.

MR. VAUGHAN: But to relate it you have to restrict it?

MR. FRANCIS: That is, you assess your demand and you go out and meet that demand.

MR. VAUGHAN: Which at times would be less than could be produced?

MR. FRANCIS: Yes.

MR. VAUGHAN: Do you think that is a good thing?

MR. FRANCIS: The trouble is that the wrong things are produced; I mean they turn out to be the wrong things, luxuries and so on. Money flows in that way, and the wrong things are produced.

For the purposes of this argument since the consumers are co-extensive with the public generally the problem has been approached in the first instance from the point of view of relating production to consumption, realizing at the same time that since in the case of many communities the consumer is a distant consumer either in a geographical or a technical way it is expedient for the primary producer to be encouraged to organize through providing the facilities for handling of his own product.

Just one word there. That is the answer to this monopoly argument, if it needs any answer; that the real check on producer monopolies is that the consumer is always standing by there, and some time the producer must meet him face to face. If the consumer is organized, and they come together face to face in a well-balanced co-operative movement, you do not find either side having too much advantage but they meet on equal terms. You may say, perhaps, "Why would not the consumer produce everything, then?" Well, we will deal with that.

It is a matter of history that there was a time when the consumer produced most of the things which he needed or at least obtained such items within a narrow geographical area by means of barter with other producers who were also producing most of the things they wished to consume. The proportion of production for one's own consumption gradually diminished with ever-widening geographical frontiers which allowed greater possibility of trade until with the advent of the industrial revolution and the years since that time many of us produce very little if any of those things which we consume.

In order to relate production to consumption in this complex economy involving intricate financial, sociological, economic, production and other factors, we have experimented with many techniques in an attempt to avoid depressions and raise the general standard of living in the community. For the most part these techniques have approached the problem from the production standpoint rather than the universal consumer standpoint. For example, the solution to the problem has often been to move to a new geographical area and develop a new corner for oneself or through invention to develop a new technique of production and thus to gradually move to an improved economy for a time but so far, and we suggest it will always be so as long as a producer technique is used, it is again necessary to require a substantial adjustment at varying intervals of time.

That is what happens in these depressions. It may be presumptuous for me to advance an economic argument to this Commission, but I am trying to convey to you the way a great body of thinking people in the co-operatives view these matters.

That is, a great many of them think and talk about these things, but I believe these points should be summed up, instead of making a great many general statements about the advantage of this, that and the other thing. This is what a good many of them are thinking; this is the way they look at it. That is why, as one of the professors has said, a co-operative has two aspects. It has a business aspect and it has a sort of theoretical aspect, and you cannot help but see that in the evidence. You may criticize it or regard it in any light you wish, but it seems to be there and the two aspects keep bobbing out here and there in the evidence.

Now it is suggested that if we approach the problem from the view point of the consumer all those who are not producers are included as well as the producers and thus we have the control in the hands of all instead of a portion of the people and the more control the consumer can exercise over the production of labour in meeting his needs the more stabilized will our economy become. Professor Marshall deals with that point, that in the other system of organizing it, from the producers' standpoint, the residuum of people is inclined to be overlooked. In such manner labour saving devices would be subordinated to the will of the people. Employment would be stabilized because consumers know the things they want and need and the quantity in which they need them. An effective and steady demand for needed goods would tend to stabilize employment since there would tend to be no extremes of speculative production. It would also mean that services which are now too risky for producers to attempt would be made available by the consumers themselves if there was a need and would thus

increase the total number of services rendered as well as tend to increase the quality. Approaching the problem through this technique it is likely that development of any production methods by means of invention will tend to expand to a greater extent rather than when it is approached from a producer technique which has the temptation to suppress discoveries in order to obtain profit for those who are at present in control of production machinery.

History has shown that under the producer technique more and more governmental regulation has become necessary until in some countries it has led to complete dictatorship and control, and in other countries has curtailed the freedom of the individual and his right to use and enjoy the fruits of his labour represented by private ownership and control. We are arguing here for private ownership. This has led to such evils as war and various forms of discord as well as serious economic difficulties which are inherent in any technique which does not take into consideration the needs of all the people in the universe.

We suggest that the co-operative form of organization as discussed in evidence before this Commission will tend to retain the greatest freedom of enterprise and initiative for all individuals and that in so far as it develops under consumer control with primary producers encouraged to meet the needs of the consumer through the co-operative technique that we will tend to an ultimate goal which is in the public interest in its entirety.

It is further submitted that this method of approach will tend to bring us back as nearly as possible to the conditions of early history when production was directly related to consumption with the exception that we will be

able to gain all the advantages of technological improvements of modern times. You will notice that the primary producers have put in fine packing plants, refineries and so on, using those things as tools. Instead of killing in the backyard, they kill in a fine abattoir, and so on. It should also be pointed out that since co-operatives are truly voluntary the minimum of state or other regulation and control will be necessary. It is suggested that where there is profit there is a corresponding loss somewhere in our economy. For example if all consumers were in a position to deal directly with each other with respect to their various needs, the problems of land, labour, capital and organization would be in equilibrium but immediately one consumer obtains an advantage over another consumer with relation to the use of any one of these four they then will be in a state of dis-equilibrium since someone has profited to the extent another has lost. It is suggested therefore that it is only in an economy where the motive of use rather than of profit is uppermost that there can be the greatest tendency towards the perfect equilibrium of the four economic factors, land, labour, capital and organization, and since the greatest good to the greatest number is the result which most truly envisages the public interest and any technique that tends to promote this trend toward perfection should be given every encouragement.

The co-operative technique is built from the individual and is always related back to every individual according to his needs and the use made of his co-operative. Thus we have co-operatives of individuals from, first small local co-operatives, then larger co-operatives of co-operatives and step by step continuing the process of bringing the

relationship of production to consumption closer and closer.

Democracy stands for opening up the widest possible avenues of self realization for individuals. The co-operative is a technique to that end and to give that technique full play, it is submitted, is in the public interest.

The evidence has shown the sound and varied adaptability to almost every phase of our economic life. In addition the gradual development and comprehensive organization methods required to have a co-operative succeed ensures a sound training in finding out the needs of the individuals whom it is serving and how to meet them whether it be a commercial venture or a community service. We submit that this training in filling the needs that benefit the community generally tends to stabilize the economy and as a result of this stabilization people feel freer to try to help themselves in a greater number of ways and thus not only a stabilized but an expanding economy is obtained.

With regard to linking the producer and the consumer together, in theory the consumers would move out and keep organizing and keep moving back to the source of production. The evidence before this Commission shows that they band together in a co-operative; they mill flour, mine coal, and so on. From your experience in the Old Country you will see that they have gone further afield there.

Is there any limit? Yes. Practice and commonsense show there is a limit, and I give you an example. Think of the Scottish Co-operative, which came out to Canada and got a line of elevators and tried to operate a big farm. The control over that farm was remote. I suggest that experience shows that the best way to grow agricultural products is to have them grown by the people who live on the land

and who are their own bosses. They are the best people. This other scheme did not work.

I have tried to show that the producers' co-operatives perform a certain function. It goes so far; and as far as it goes, it performs a great function. But that production is for whom? It is not for grown men, who are working; it is for women, children, old people, sick people and all the rest of it. So we start with the whole group and say, "What do you need?" and when we find out what they need, we say, "We will go out and produce that." But when you come to agricultural production, and possibly other things, the best way for us to have our needs fulfilled is for the people who live on the land to do it, and then, having produced it and brought it half way, make an equitable arrangement.

So I do not have any difficulty, nor do I see any inconsistency, in my appearing for producer co-operatives and consumer co-operators. They are functional. They perform different functions and have a great deal in common, because they represent the two ends of the chain. Consumption is the one thing that matters, and labour is the other, or production, if you like. These are the only things that really matter, and all this in between is just to facilitate the product of man's labour, or his production, going to the people who need it the most on an equitable basis. So that is the picture.

MR. VAUGHAN: I cannot help getting back to the former question. If you are going to regulate consumption, or regulate production according to consumption, how can you regulate the amount of business that is going to be exported? You must remember that a great deal of our Canadian business

is exported. Let us take wheat, for example. How can you regulate the production of wheat, when so much of it is exported, unless you can find out how much England is going to buy and how much other countries are going to buy and then say, "Well, we will cut down our production accordingly." That is contrary to all the general ideas, I think. What they try to do is to sell as much as they can for export, not to cut it down to whatever may be estimated as the minimum amount required.

MR. FRANCIS: Of course the point raised is a very interesting one, because agricultural production is a harder thing to regulate than some of these other things about which I have been talking. That is only one of the things, but it can be regulated to some extent by quality, by better brands, better types, better grades, and so on.

MR. VAUGHAN: There is just one further question on the same point. Does not a regulation of that sort presuppose that the law of supply and demand is meddled with or is upset? Once you get into regulating the law of supply and demand, it disappears.

MR. FRANCIS: My argument is that this is something that will do away with regulation; that we have tried regulating, and it leads to too much government control. This, I suggest, tends to do away with regulation, because you are producing, as far as possible, for a known and organized demand. It is not regulation that I am talking about; it is relating production to consumption.

MR. VAUGHAN: Yes, you are relating production to consumption, but will that not be done really in a good many instances by reducing the production? If you are

just going to produce sufficient so that it will be all consumed, would not the result be that production would be produced in some cases?

MR. FRANCIS: I suggest that to a great extent you may change the type of production, because at the present time people who produce do so with an idea of getting a profit, and as long as they get a profit they keep on producing. When they fail to get a profit, they stop producing. Under this system -- and there is some evidence as to this before you -- that is not at all the thing that matters. If there is a need for a certain thing, and it is under the control of those who need it, they produce that thing which they need most. That stabilizes the whole economy, because you have money flowing into consumable goods, not into capital goods but consumable goods. The trouble with putting the emphasis on the producer is that too much capital goes into the production of goods.

MR. VAUGHAN: I do not see how we can overcome the export business, however, when you try to regulate according to consumption; nor do I see how you can change the raising of wheat to the raising of some other kind of commodity.

MR. FRANCIS: Let me put it in this way, then.

MR. VAUGHAN: What could you possibly substitute for the production of wheat, of which people would consume more?

MR. FRANCIS: Let me try to sum it up in this way. We have heard a great deal about planning. Many public men have been talking about planning, saying that we are going to have a great deal more planning. All I ask this Commission is this. If you are going to have planning, which I think you are, who is the best person to do that planning, the man who is going to use the things that are being produced, or somebody else? Co-operation, without

the word being used at all, is really a type of planning for satisfying their own needs.

MR. ARNASON: Is it your point that in so far as consumers' co-operatives can be developed to handle or use the products of producer co-operatives, to the extent that is done it tends or helps to some extent to relate production to consumption?

MR. FRANCIS: It tends to do so.

MR. ARNASON: It is not necessarily the complete answer, but that is what I concluded.

MR. FRANCIS: Yes.

Now, finally there is the matter of the recommendations. I am not sure whether you wish me to discuss the recommendations, but I shall be glad to do so. There were a great many definitions placed before this Commission, but two were somewhat similar. Federated Co-operatives placed before the Commission quite a long definition, and the Co-operative Union of Canada place a very similar and fairly exhaustive definition before you. I do not know whether you wish that definition discussed, but I shall be glad to do so if that is your desire. I have set out various recommendations, and there may be some questions arising in connection with them.

MR. PARKER: These are the recommendations, I understand, which you have selected from the number made by those in whose behalf you are speaking?

MR. FRANCIS: In going through the evidence I found that there were a very great number of recommendations. I found that they were not consistent in all cases, and I think the reason for that can be easily understood in this country, with the different backgrounds of the co-operatives,

their different ages and different types; naturally you get different recommendations. I am not trying to say they should be uniform, nor am I trying to justify them. What I have tried to do is marshal the evidence in support of some of these recommendations.

MR. PARKER: Do I understand these to be a summary of the recommendations pertaining to your briefs, or to all briefs?

MR. FRANCIS: I have selected these as being perhaps the most important.

THE CHAIRMAN: They come from various briefs?

MR. FRANCIS: Yes. The recommendations are as follows:

"(a) That co-operatives should not be assessed retroactively. (Co-operative Union of Canada)

(b) That a comprehensive definition of a co-operative should be inserted in Dominion legislation.

(Co-operative Union of Canada, Ontario and others)."

A great deal of thought was given to the drafting of a definition. To-day instead of defining a co-operative I have tried to show the Commission what we conceive it to be. But we have the definition here, and if it is the wish of the Commission I shall be glad to discuss it in detail.

* THE CHAIRMAN: If we should try to draw up a definition and should be even partially successful, for the next ten years probably they would be able to drive a horse and waggon through it. That is my feeling about it.

MR. FRANCIS: I have not found any of these that suited me; I will admit that, but at one stage of the proceedings I understood that the Commission would like an attempt made to draft a definition. Perhaps that was not the case, but

an attempt was made. It may be a pretty good definition, but I take it that I need not devote a great deal of time to discussing this matter.

MR. PARKER: Unless you have one of your own, a brand new one.

MR. FRANCIS: I have not a brand new one. Really, with regard to the definition in section 4(p), if I had been interested in having all the legal work I could do for the rest of my life, I should have suggested yesterday that section 4(p) be retained.

MR. VAUGHAN: Will we have that definition you are proposing, to study?

MR. FRANCIS: I have the definition of the Co-operative Union of Canada. I have had these copies made for convenience, if you wish to look at them and discuss them, but if you are not interested in definitions --

THE CHAIRMAN: We are interested in definitions, but I do not know that we are interested in drafting one.

MR. VAUGHAN: Those are the same as were presented before; are they?

MR. FRANCIS: Oh, yes; these are in the evidence, but I thought possibly you would not have them available before you to-day.

THE CHAIRMAN: Then if you will file it, it might be just as well to have it before us.

MR. FRANCIS: Very well. This is the best we could do; that is all. The rest of the recommendations are as follows:

"(c) That savings of co-operatives should be exempt if allocated or paid to the members approximately in proportion to patronage contributed. (Saskatchewan Federated Co-operatives Limited and others.)

- (d) That present exemptions should be retained.
(B.C. Seed Co-operative Association and others)
- (e) That business with non-members should be deemed to be carried on at a profit. (Saskatchewan Federated Co-operatives Limited - Canadian Live-stock Co-operative (Maritimes) and others).
- (f) That a certain percentage of non-member business should be permitted. (Davidson and Lloydminster Associations and Co-operative Union of Canada)
- (g) That necessary reserves should be deducted before arriving at taxable income. (Co-operative Union of Canada).
- (h) That all rulings of the Department of National Revenue relating to income tax should be published.
(Bickell - VII - 2308).

It is submitted that all of these recommendations deserve careful consideration in the light of the evidence and other information available to the Commission.

In view of the hour, Mr. Chairman, I should like to leave it in this way. If there are any points about reserves, or anything like that, which you would like to discuss, or if you have any questions to direct to me, I should be glad to try to be of assistance. It is a big field if I start to deal with all these items. I have a further memorandum containing suggestions as to reserves, and so on. I can file that with you or discuss it, as you wish.

MR. VAUGHAN: I have just one question to ask about these reserves. The recommendation reads:

"That necessary reserves should be deducted before arriving at taxable income."

What have you in mind regarding "necessary reserves"?

MR. FRANCIS: Let me put it in this way when dealing with that particular question. During the closing hearings of the Commission a number of briefs were filed, and on one or two occasions in describing those briefs from various interests the term "a statement of claim" was used. I think that is a good description, and I think of a number of these briefs which have been filed as statements of claim, or charts which you try to follow out by substantiating. Now, then, I am arguing on these points, asking for these recommendations in so far as the evidence and your independent inquiries justify them in the public interest. Let me put it in that way.

MR. VAUGHAN: I do not think "necessary reserves" has been brought out very clearly in the evidence. The point particularly in my mind is this. We know there is a proper rate of depreciation and a proper rate for bad debts, as found out by experience. But does that word "necessary" include the setting up of reserves for buildings, plant and expansion?

MR. FRANCIS: I shall be glad to deal with that point. The first necessary reserves, I suggest, are valuation reserves, which of course are depreciation and bad debts, which are allowed as an expense. Those are so-called reserves; I suppose they are not really reserves in a sense. Then there are expense reserves. In private business expense reserves are not very common, I think, because the expenses are paid out during the year, that is the items that are allowed as expenses for advertising, for instance, would be paid out during the year.

In the co-operatives, as the evidence shows, they set up what they call an education reserve. Irrespective of what we call that, we suggest that is equivalent in one sense to an advertising expense, and some of the provinces; as you will remember, have regarded as "necessary reserves" in their legislation a very small percentage as what they call an educational or a community fund.

I think that might be developed. In Prince Edward Island it is called a co-operative education or welfare fund, and it is up to five per cent. Coming along to New Brunswick, it is five per cent for an education or welfare fund. In Ontario it is up to five per cent for an education or community fund. In Saskatchewan it is up to ten per cent as an education or community fund. In British Columbia it is not dealt with; but that is a reserve that would approximate an expense item for advertising, which would be allowed in profit business. As you know, the small co-operatives do not pay out these amounts for advertising and donations in the same way as profit businesses.

Then there is the further contingency reserve. At present nothing is allowed for contingency reserve, although there is some difference there as between different provinces, and perhaps something should be allowed. That is a matter of opinion. Some take the view that there should be, and some that there should not. The principle of ploughing back earnings is much older than the income tax, and it is a good tenet of finance that there should be a reasonably safe margin. So that is a matter for consideration, whether or not there should be a contingency reserve as a safety margin, to insure two things. First, the preservation of the

institution in the public interest, or, second, to take care of losses.

The difficulty there is that we are looking at the whole picture, and some types of business take a very small contingency reserve in order to ensure preservation and to ensure that there will be no losses. In other businesses, such as the marketing of wool and wheat and certain primary products, you get such tremendous fluctuations that it is very difficult to say what that contingency reserve should be in order to adequately do those two things, that is preserve the association and take care of losses.

MR. ARNASON: Just in connection with that, would you suggest that it might be possible to relate a contingency reserve to some extent to the capital contributed by the members, either in the form of shares or loans which are repayable to the members over a certain period?

MR. FRANCIS: Different methods have been tried, and it would be pretty hard to say. It has been related to assets; it has been related to share capital, and it seems to me it should be related to all the equities of the member in some way. Would that answer the question? Would that be a useful suggestion, that you take all the equities of the member and relate it to that, because the share capital fluctuates so much and is not nearly so important in the modern co-operative.

MR. ARNASON: I had in mind the grouping of the various claims of the members. It might be share capital, where that is used, or it might be share capital plus certain withdrawable deposits or certain funds which had been credited to the members and which have to be paid to them:

or where no share capital is used, there would be other forms of capital or funds contributed by the members, in which they would have a claim. I do not want to pursue that, however, unless you have something to add.

MR. FRANCIS: I have just this comment to make. A great deal of consideration has been given to that, and as a guide, where is one to look? Well, there again there does not seem to be any place to look but to the provincial legislation, where the experience has been derived from close contact and where experiments have been tried. If you look across the board, from one end of Canada to the other, you will get a fairly consistent picture of the reserves that have been considered as necessary for co-operatives. This is not perhaps a very valuable suggestion, but it may be some guide to you to see what the local legislatures have deemed necessary in the way of reserves.

MR. VAUGHAN: So far you have covered what might be termed ordinary business reserves and emergency reserves. Is that expression, "necessary reserves" meant to go any further than those reserves that have been mentioned, that is ordinary business reserves and what you might call contingency or emergency reserves?

MR. FRANCIS: I would not think so, although I am having a great deal of difficulty with these reserves. You must draw the line somewhere, and if expansion is desired then in fairness, at some point, the money should be put in by the person who is going to use the commodity.

MR. VAUGHAN: I just wanted to get an understanding of that. I am not questioning it, but only desiring to get at what is meant.

MR. FRANCIS: I should like to draw the attention

of the Commission to a very valuable contribution in connection with this matter of reserves, if I may, which is found at pages 64 and 71 of the Report of the Royal Commission on the Taxation of Annuities and Family Corporations. It is just off the press. It discusses in a very interesting and, I think, helpful way this matter of reserves for everybody, all businesses, and I think you may find some help in that report. Perhaps I should make it clear that it is not the recommendation to which I am referring. That is hardly relevant, but I am referring to the discussion in the report leading up to the recommendation. I hope that may be of some help to you. That is all I have to say about reserves, if there are no other questions at the moment.

Then, if there is nothing else, my lord, that concludes my presentation. May I thank you personally and the members of the Commission for your courtesy and patience, not only to-day, but all across Canada.

THE CHAIRMAN: We were very glad to hear you, Mr. Francis, and it was quite a strain on you, I am sure. We thank you for your contribution.

MR. MILLIKEN: Do I understand that it is the intention to adjourn now?

THE CHAIRMAN: Yes, Mr. Milliken.

MR. MILLIKEN: Then before you adjourn may I just say, as one who has sat in since January 11, in a more or less listening capacity, that I also appreciate the courtesy not only of the Commission but of Commission Counsel and of the Registrar as well. It has been a pleasure to travel with you. I need scarcely tell you that we are looking forward with great interest to your report. Not only has it been a pleasure to travel with you, but four of you gentlemen

were quite complete strangers to me when the Commission started its deliberations, and it has been a pleasure to come to know you personally.

THE CHAIRMAN: That is very kind of you, Mr. Milliken, and we reciprocate those good wishes. Now our task becomes a little more complicated.

Whereupon at 4.30 p.m. the Commission adjourned.

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